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Response to Sheynis on Third World Capitalist Development Prospects

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[Article by Antonina Andreyevna Sterbalova, candidate of philosophical sciences, senior research fellow of the USSR Academy of Sciences International Workers Movement Institute: "Noncapitalist Development: Vistas and Impasses"]

[Text] V.L. Sheynis' article "The Developing Countries and the New Political Thinking"¹ is a first and therefore difficult, unusual and bold, step on the path of a break with ossified scientific outlines. Its indisputable value is its invitation to argument and the attempt to overcome the stagnation of scientific thought and feel out the possibilities of a breakthrough toward more precise theoretical ideas concerning complex social processes in the Third World. The article contains more than sufficient grounds for a polemic on many issues,² but we shall confine ourselves to just the one, but, seemingly, key conclusion concerning the *illusory nature of a noncapitalist alternative* for the developing countries.

In Asia and Africa it is difficult to find, with few exceptions, a state which has openly announced its aspiration to capitalism. The dialectics of Third World development in past decades have engendered a multitude of various socialist doctrines. The majority of the changes in these countries both leftward and to the right has been accomplished under socialist slogans. The "white revolution" in Iran, whose purpose was to rejuvenate decrepit production relations, open the valve for the development of capitalism, create for the ruling elite a new social base and thereby preserve the prevailing political system and prevent revolution from below, garbed itself in the toga of "socialism". "Socialist" rhetoric also adorned the Islamic revolution which ousted the shah's regime.

In the developing countries in which the national bourgeoisie which had taken shape as a class was in power official socialism in the 1950s- 1960s was represented mainly by the "third way" theory. Its ultimate goal was declared to be socialism, but in practice the creation of a "socialist model" society, in India and Tunisia, for example, was realized as a struggle for independent capitalist development with a strong state sector and elements of planning in the economy. The state capitalism of this type contains a number of anti-imperialist features and reflects the endeavor of the national bourgeoisie to use individual aspects of the economic experience of the socialist countries to strengthen the state trends in the economy and reinforce its positions in the struggle against foreign capital.

In regions of the former colonial empires administered by political organizations of the middle strata each state project and any economic measure have almost always

been translated into the language of the socialist vocabulary. "National socialisms" in these countries—a semi-mythical symbol of faith and origin—crystallized out into African, Muslim, Arab and cooperative versions and were embodied in ambivalent social practice.

In the social laboratories of the intermediate strata there emerged, developed and strengthened also the revolutionary ideology of their most radical wing which had experienced the tremendous influence of scientific socialism and which converged with it increasingly in the decisive clauses of programs of socioeconomic transformations. But socialism in the imagination of a number of leaders of the emergent countries (although some of them consider themselves supporters of Marxism-Leninism) is frequently nothing other than a modernized statist-communal arrangement and particular administrative system headed by an independent, sometimes despotic state.

There are no ideas without the social reality which has engendered them, as there is no objective reality which does not change under the impact of ideas which have gained popularity. Under the dual press of a precapitalist basis or one not primed for socialist restructuring and traditional ideas the deformation of social development and the degeneration of the leading groups which had initially sincerely aspired to implementation of the principles of socialism are possible. The 1960s-1970s were marked by a number of examples of abrupt changes in the political course of some young national states. Egypt, Ghana and Mali far from exhaust the examples of backward movements and the vistas and impasses of noncapitalist development. Striking pictures of social deformations and zigzags in countries of a socialist and pseudo-socialist and capitalist and quasi-capitalist orientation are painted, specifically, by direct observers of today's African reality also.²

The discrepancy between the conceptual, terminological form in which Marxist development concepts are clothed and specific-historical reality is perceived acutely by African figures themselves. The editor of the Senegalese journal REVUE AFRICAINE DE COMMUNICATION, B. Sin, who is convinced that only Marxism can play the decisive part in the theoretical interpretation of African reality, writes sorrowfully that Marxism on the one hand has been subjected to a purely African interpretation and, on the other, has rapidly been turned into a catechism, which is cutting off the roots of Africa's sociopolitical and cultural reality. Even under the signboard of people's democracy, B. Sin writes, "authoritarian power allegedly in the interests and in the name of the people frequently liquidates each and every democratic liberty, relying on a state and party machinery equally bureaucratized and frequently representing a uniform machinery of oppression."³

The nonconcurrence of reality and the evolved scientific stereotype presents science with a stiff claim. Particular difficulty in this connection is attached to the improvement and enrichment of the generally accepted concepts

formulated by science for study of the distinctiveness of social processes in the Third World. The unequivocal application of concepts formulated to describe social phenomena in Western countries to young national states frequently leads to procedural errors. They amount, specifically, to the fact that Western countries and their history and social structures and types of revolution and their driving forces are employed as a world-historical standard to which not only the present day but also the medieval and ancient history of oriental peoples are adapted.

There is as a result an aberration of ideas. An evaluation of events which emerged in fundamentally different socioeconomic soil is transferred to a social atmosphere which is alien to them, the repeatedly declared specifics disappear and there is an involuntary distortion of V.I. Lenin's demand that we append "the general and basic principles of communism to the *distinctiveness* of relations between classes and parties and the *distinctiveness* in objective development toward communism which are inherent in each individual country and which it is necessary to know how to study, find and divine" (4, vol 43, p 74).

General and universal concepts in the social sciences do not possess an absolute value. Formulated for one historical era, they become imprecise for a reflection of the essence of class phenomena of another era. To the same extent general definitions formulated for one group of social relationships are for another group thereof either unacceptable altogether or acceptable only with big reservations.

Thus in countries of a capitalist orientation in which the capitalist production mode, granted all its dynamism, has not become the predominant mode, not become a national phenomenon, we are equating as yet formal with actual capitalist relationships and clothing the manifest noncorrespondence thereto in the "nonclassical capitalism" concept. In countries of a socialist orientation we are transferring to the processes of radicalization of political programs occurring without qualitative changes in the socioeconomic basis and class relations the "popular-democratic revolution" and "people's democracy" concepts born in fundamentally different socioeconomic soil—the East European countries, which had a developed national bourgeoisie and developed working class and in which, by virtue of the particular political conditions of a national front in the antifascist struggle, "people's democracy" was the form of dictatorship of the proletariat. The heart of the matter is not altered even by attempts to take account of the specifics of the developing states by way of purely terminological amplification: "popular-democratic republic of a socialist orientation".³

"Name correction" theory (zhengming) existed in ancient Chinese philosophy. Back in the 3d century before our era the philosopher Xun Zi formulated it

approximately thus: "When names are determined correctly and correspond to things, it is then easy to understand the essence of things. When things which are different from one another are distinguished, mistakes are not made. When people know that things which are dissimilar in terms of actual content should have dissimilar names also, then dissimilar actual things will always be distinguished by name and confusion will not arise."

It would seem that today the "noncapitalist development" concept is in dire need of determination of its conformity to present-day actual content. It is essential for this to break with the evolved stereotype, which is harder, as A. Einstein once observed, than splitting the atom.

We would recall that theory systematizes practice, and practice tests theory and monitors its correspondence to the urgent objective demands of the era.

A quest for new approaches to an explanation of the problems of the contemporary Third World has now emerged. The ambivalence of the development of countries of a socialist orientation inscribed in the system of the world capitalist economy was reason for G. Mirskiy to raise the question of whether we had not substituted for the "noncapitalist development" concept in the 1950s-1960s (6, p 27), when young national states liberated from colonial dependence moved onto the scene of historical creativity under flags of a whole cascade of "national socialisms". We can agree with G. Mirskiy that the "noncapitalist development" concept, which reflected at the start of the 1920s the transition of backward countries and peoples to socialism, bypassing capitalism, in the channel and simultaneously with the socialist revolution in Russia, was insufficiently *capacious* in the 1950s-1960s for explaining social processes in the developing world. But, on the other hand, the explosive social processes in the Third World themselves were inscribed in a different system of coordinates, which requires different reference points for their more adequate description.

The conclusion that has already been drawn in science that revolutions in the East do not, as a rule, assume either a classically bourgeois or classically bourgeois-democratic nature but develop into *revolutions of a new type*, which tackle social tasks which go beyond the framework of bourgeois revolutions,⁷ is, in particular, in need of further elaboration today. The historical practice of recent decades confirms this conclusion, although the question of whether the achievement of political independence in the course of anti-imperialist national liberation revolutions without the conquest of economic independence signifies the completion of this independent revolutionary stage and transition to evolutionary development or whether it is, by virtue of the specifics of the historical fate of oriental countries, far from "evolutionariness" and revolution is, as before, on the agenda⁸ remains open to question.

The present-day national liberation revolutions grew out of the anticolonial, national liberation movements, which have not repeated in their content the national liberation movements in the West. Their result has been not the formation of bourgeois nations and bourgeois states, as in the West, but the establishment, as a rule, of authoritarian political regimes with a one-party system and the dominating role of the army, which has frequently assumed the functions of political parties also.

The relative independence of the executive in the young national states is an objective reality. The attributes of bourgeois democracy—republic, parliament, president—borrowed from the West are most often merely the dress of the era in which the new political regimes clothe themselves. We can hardly argue with scholars' conclusions that even in countries of the Third World in which capitalism has virtually discovered a "logic of self-development" (?) modern bourgeois states and a civic society, which, as is known, have as their natural basis relations of *developed bourgeois private ownership*, have not yet taken shape. Its unevolved, undeveloped forms, on the other hand, are engendering merely a palliative of the bourgeois state and society.

Detecting features of similarity between the political regimes in national states with Bonapartism and simultaneously endeavoring to emphasize their differences under the new historical conditions, researchers define them as "neo-Bonapartist" or "parliamentary-authoritarian"⁹ preceding the formation of a truly bourgeois society and state. Merely a purely outward analogy is revealed thereby inasmuch as any independence of the executive is marked by similar features of authoritarianism. But granted the outward similarity of the phenomena, we are abstracting ourselves from their essential differences, forgetting the well-known warning of Marx, who, arguing with the "creators" of marketable ideas concerning the Caesarean essence of Bonapartism, observed that "given such a fundamental difference between the material and economic conditions of the ancient and contemporary struggle of the classes, the political figures born of this struggle also could have no more in common between them than the Archbishop of Canterbury and the High Priest Samuel" (10, vol 16, p 376).

Expressing a temporary compromise between the classes, the Bonapartist state ultimately paved the way for the victory of the private ownership haute bourgeoisie. Having firmly established itself economically, its representatives legally structure their class domination in forms of bourgeois parliamentarianism. The bourgeois parliamentary republic is a political copy of economic capitalist relations. It is the state form and political stimulus of the development of capital affording it the best opportunities for reinforcement and growth. The rivalry of bourgeois parties within the framework of the parliamentary regime is an indirect reflection of the competitive struggle and the formation and strengthening of monopoly companies ruining their petty bourgeois competitors. In the period of transition from feudalism to

capitalism the petty bourgeoisie, in turn, did not separate itself politically from the haute bourgeoisie and saw as its own goal also the state ideal of the bourgeoisie. In the young national states, however, the middle strata and the petty bourgeoisie do not, on the contrary, identify themselves politically with the class of big national capitalists, which, incidentally, has not yet taken shape in the majority of countries. But at the same time their principal enemy is foreign monopoly capital, in confrontation with which they are seeking forms of their own class self-expression. The middle strata can counterpose to the industrial and financial power of the foreign bourgeoisie and their national bourgeoisie which is taking shape only a strong centralized executive, which they see as defense against capitalist concentration and the economic pressure of the bourgeoisie.

The relative independence of the executive in the young national states is a particular feature not of the state itself but of its "subsoil," the motley mosaic of middle or so-called intermediate strata, which still constitute from 50 to 80 percent of the gainfully employed population of the developing countries. They lend themselves only partially and with great difficulty to capitalist transformation, and the bulk of them stubbornly preserves the traditional character—the heterogeneousness of economic interests, which is nurtured by the commination and discreteness of petty and the smallest-scale production. It is destroyed and becomes degraded under the blows of capitalist modernization, but is constantly reproduced on its own basis.

Under these conditions the *commanding positions* in the development of modern industrial production belong not to the class of the bourgeoisie in the making but to the state, which captures all the decisive sectors of the economy and economic levers, confining the development of the private sector to the secondary sectors.

The nature of the relative independence of the state and its *decisive economic role* has its origins in the "oriental despotisms" and the singularities of their socioeconomic structures. Whereas in the old "oriental despotisms" the state was a factor of the stability and conservation of social practices, in the new atmosphere of revolutionary change it becomes a catalyst of development, a source of ascending movement and the main, if not sole, force of the transformation of precapitalist relations. The economic role of the young national states amounts to the building of industry, the modernization of agriculture and the creation of a modern infrastructure and a ramified division of labor which together with the national market forges into a single whole both the entire economic system and the scattered national and social groups.

Under the conditions of the continuing and sometimes intensifying disintegration of the modern and traditional sectors the state and the state sector perform the role of a kind of "filler" between them. This has engendered a special form of state capitalism without analogy in

Western practice. It not only encourages the development of private initiative but, as distinct from the versions known in the West, in its own way curbs it also and, consequently, limits the development of bourgeois private ownership and cushions and regulates spontaneous market processes.¹⁰ Together with developed forms of capitalist production and a commodity economy (in the modern sectors) there are, predominant sometimes, forms of simple commodity economy (in the traditional sectors). But "the production of commodities and the circulation of commodities," as K. Marx specially emphasized, "represent phenomena inherent in the most diverse modes of production, although their volume and significance are far from identical. We consequently know exactly nothing about the *differentia specifica* (typical particularities) of these modes of production and can say nothing about them if we know only the abstract categories of commodity circulation common to all of them" (10, vol 23, p 124).

The interaction of the traditional and modern sectors and the developed and simplest forms of commodity economy may engender also intermediate, transitional forms, including social differentiation of a particular, transitional type, with little in common with the classical standards of classes and social strata. Pertaining to such an intermediate, transitional form, incidentally, is also the so-called bureaucratic bourgeoisie or quasi-bourgeoisie parasitizing on state ownership and springing up from fusion of authority and a kind of "appropriation" of state ownership. It is the particular position of the "bureaucratic bourgeoisie" sharply distinguishing it from both Western bureaucracy and, even more, from the bourgeoisie marked by deformed phenomena of unchecked corruption, nepotism and incredibly inflated personal fortunes, that is, monetary wealth which is not capital capable of self-growth based on the extraction of surplus value, which engenders the "quasi-consumer society" and "caricature capitalism".¹¹

But even this "capitalism," a number of researchers believes, has a base for growth "from below". "Local capitalism," a most interesting general work emphasizes, "...is a very weak, rickety, barely viable organism which can live only thanks to assistance on the part of foreign capital or develop under the aegis of the state...." But "the market is the market, and a commodity is a commodity.... Petty production and market relations spontaneously engender capitalism."¹²

Of course, if the problem is transferred to an "abstract vacuum," it can hardly be doubted that petty production, in V.I. Lenin's classic expression, "engenders capitalism and a bourgeoisie constantly, daily, hourly, spontaneously and on a mass scale" (4, vol 41 p 6). After all, it is well known that the commodity is the cell of bourgeois society, commodity production, the basis of the development of the capitalist economy, and the intermediate strata, the object and subject of class differentiation and source of growth of the main classes of

capitalism. But the question arises: does petty production always and under all conditions engender capitalism, and do the intermediate strata give birth to the commanding class of capitalist production—the bourgeoisie? Depending on the specific historical situation, the problem is resolved variously. With reference to the conditions of underdeveloped countries, however, even less can there be an unambiguous answer.

The tragedy of the Third World is that, despite the victorious march of capitalism in a number of countries, particularly in the new industrial countries—this showcase of capitalism—in preponderant zones of the developing world capitalism rests, in V.I. Li's colorful expression, like the "tip of an iceberg" on the broadest foundation of archaic social structures (6, p 31).

This answers to a certain extent, seemingly, the question of whether capitalism will grow "from below". Can the traditional environment, decomposing and becoming degraded under the blows of the capitalist commodity economy, in the more developed countries included, engender capitalism spontaneously and on a mass scale?

An impartial analysis of the enigmatic sphinx of the Third World—the traditional social environment and ultimately the nature and mode of production conditioning the degree of development of the economic position of the strata and groups of petty and smallest-scale producers constituting it and also of the ever increasing *declassé* masses—will provide the key to the answer to this question. We will possibly encounter a distinctive phenomenon—the capacity of the traditional environment not only for resisting capitalist modernization but also adapting to itself elements of the capitalist commodity economy, absorbing them, dissolving them in itself and creating "hybrid" forms of production and "hybrid" social strata and groups.

In this case the disintegration and degradation of the traditional social environment together with its conservative character and capacity for self-reproduction are not only a consequence of capitalist modernization but also a cause of "nonclassical capitalism," as we usually define its paradoxical and sometimes caricature forms.

The attempt to explain the singularities of capitalism in the contemporary Third World with the aid of the concept of the synthesis of traditional and modern structures⁹ is fruitful. But, we believe, not only the result of the synthesis but also its starting point are in need of more in-depth study.

Today also the starting point in the majority of Asian and African countries appears as a "geological section," in which fragments and rudiments of all modes of production—from "Asiatic" through capitalist—are stratified and interwoven. While resorting frequently to this metaphorical description, we do not recognize, as a rule, how more precisely it defines the essence of the problem than the multistructure concept. Multistructure

is derived from the interweaving and superposing of elements of all modes of production, which in itself represents a particular phenomenon preventing capitalism reworking the traditional social environment on the basis of its own laws, which calls in question the conclusion concerning the "logic of self-development" of capitalism in the Third World (1, p 79).

The question arises: are we not encountering the phenomenon, as yet unclear to us, of a kind of "social isomorphism"—the threading onto the invariable rod of the traditional precapitalist production mode of all historically changing progressive forms of social production, as far as capitalist, within a steadily persisting, albeit modifying, social form, which, as it develops, acquires the modern character of "nonclassical" social relations? It is possible that it is this phenomenon that is blocking the ultimate structuring of the capitalist mode of production and preventing it becoming firmly established on a national scale and becoming formation-forming.¹²

"Nonclassical capitalism"—a combination of modern industry developing by capitalist methods and an as yet archaic precapitalist social environment—forms, as a whole, a system which is still far from bourgeois production relations. The system of production relations possesses relative independence and may not correspond to the level of development of the productive forces within the country, either adapting them to its requirements or influencing the acceleration or deceleration of their development. Nonetheless, "new," as Marx wrote, "higher production relations never appear before the material conditions of their existence mature" (10, vol 13, p 7).

The relative independence of the "nonclassical," more precisely, nonbourgeois, production relations taking shape is intensified by the dependence on the world capitalist economy and the inordinate foreign debt, which promises no rapid solutions in the surmounting of backwardness. The developing countries' lag behind the developed capitalist countries in terms of per capita gross domestic product grew from 17-fold in 1950 to 37-fold in 1985.¹³

"The essence of the problem of the developing countries' backwardness," V. Sheynis rightly observed, "is not a question of the kind of capitalism... but the kind of social environment in which it operates and which it has been unable in the majority of developing countries as yet to restructure in its own image and likeness for reasons rooted not so much in the immanent contradictions of capitalism as in the properties of this environment itself" (1, p 79). The obviousness of this opinion is at the same time canceled out by other assertions of V. Sheynis, who believes that, despite the unusual, "nonclassical" forms, the process of capitalist development has gone quite far and that for many developing countries formulation of the question concerning the "discontinuance" of this process and movement "in circumvention" of capitalism has become pointless.

Inasmuch as the same difficulties in surmounting backwardness are experienced to an even greater extent by the countries of a socialist orientation, this leads V. Sheynis to the conclusion that the noncapitalist development path on the periphery of the world capitalist economy has not become a convincing alternative to the capitalist orientation and will hardly become such in the foreseeable future. From this is drawn the very important conclusion that "on the scale of the Third World, if it is taken as being within the boundaries customary with us, there are not two equivalent directions of socioeconomic development" (1, p 79). This does not mean, of course, Sheynis specifies, that all peoples are condemned to only a capitalist development path. The vagueness of our theoretical ideas concerning the noncapitalist development path in the modern world suggests the need for an extension of the geographical framework of the developing countries to their real contours and for attention to be directed primarily toward the historical experience of China's search for a noncapitalist alternative.

Today China also believes that, having completed a transition from new democracy to socialism, it remains in the developing world. "Socialist China," the report to the 12th CCP Congress said, "belongs to the Third World, we have a common fate and common aspirations."

Such an assertion sounds upon first hearing a discordant note. The distance separating China from real socialism is still great, but it has torn itself away also from the developing world, while preserving here many of its generic features, primarily a backward economy, over which a contemporary S&T complex towers. For 30 years following the victory of the revolution the creation even of the material prerequisites of the new society was not completed, horizontal socialization was lacking and vertical socialization predominated in vast areas of the country, particularly in the provinces of the Chinese heartland. The immense agrarian sphere preserved to a large extent features of the archaics of traditional production, on the basis of which social organisms—something middling between administrative-agrarian associations and communes with limited self-management—were created. Against the background of a backward economic basis socialism existed as an interspersion and represented both partial reality and the mythologization of the traditional ideal of wage equalization which had possessed the peasants' minds for centuries.

A far-reaching experiment has been implemented in recent years in the course of economic reforms to overcome the vertical socialization of production and gradually replace it with the horizontal path of introduction of market principles and private, collective-private and other forms of ownership together with public ownership in the leading sectors of the economy and given its leading role. The mechanism of a "socialist planned commodity economy" which is being created presupposes a narrowing of the sphere of directive planning and an expansion of market regulation with regard for the action of the law of value and even the allowance of

"socialist competition". The state, of course, reserves for itself all the key sectors of the national economy, making the secondary sectors, particularly in the field of petty production, available for the development of private initiative. The economic role of the state here is modified: instead of centralized planning and administrative leadership of the entire national economy, it amounts to securing the general foundations of production by way of state regulation of the market and the market orientation of the enterprises, which as a whole is laying the "foundations of the body of the new system of the planned commodity economy."

As the report to the 13th CCP Congress at the end of 1987 emphasized, the current stage of the initial building of socialism is still characterized by an inadequate economic base, the quite substantial influence of subsistence and semi-subsistence farming, the domination in the country of manual labor and the presence of a large number of enterprises lagging tens and hundreds of years even behind the modern level. The entire period of the initial phase of socialism will last, as the report observes, a minimum of 100 years.

The unsurmounted economic backwardness dictates the need for a return at the new round of historical development to forms of the commodity economy, which did not enjoy sufficient development in the prerevolution period. The quest for the optimum correlation of plan and market and the insertion in the socioeconomic structure previously based on total socialization of elements of capitalist experience of management of the economy as far as the introduction of private ownership is aimed at creating a particular model of "socialism with Chinese specifics" appropriate for the country's national singularities. Chinese theorists are seeking an explanation of the combination of public, private and other forms of ownership within the "socialism with Chinese specifics" framework and arguing about the nature of the social system.

In our view, the symbiosis of a whole number of features of socialism with the generic indications of the developing world is more reason to believe that China is experiencing a long transitional period from precapitalist relations to socialism nonequivalent to the transitional period from capitalism to socialism. It could be defined as a *particular version of noncapitalist development*, in which the original stage of the building of socialism has already emerged. But this assertion explains nothing if it is understood in the commonly known sense as a transitional stage to socialism, bypassing capitalism.

It is no longer sufficient, we believe, today to confine ourselves to a diffuse interpretation of the idea of the noncapitalist development of former colonial and dependent countries, for which the socialist revolution in Russia opened paths which had been closed hitherto. This idea, once expressed by K. Marx and then developed by V.I. Lenin at the Second Comintern Congress, was for a long time refuted, it being called a reiteration of

populist views, it deliberately being overlooked that it had been advanced by Lenin in a fundamentally different historical era. But the canonization also of this idea threatens to turn it into a museum relic and dried-up exhibit. In the 1920's the "noncapitalist development" concept was rectilinearly identified with socialism or, at best, with a transitional period from capitalism to socialism. In recent years historical practice has forced us to rethink the content of this concept, but features of direct analogies of noncapitalist development with socialism stubbornly persist also. Thus, A. Sekou Toure believes, the noncapitalist path is not the threshold of either socialism or communism, that is, socialism and communism are nothing other than the noncapitalist path of development.¹⁴

An immense number of facts has been accumulated in recent decades testifying to the ambivalence of social processes in the young national states born of national liberation revolutions. They are inscribed in the picture of a rapidly changing world, accelerating and making more complex the dynamism of social and political processes. "The sum total of all these changes," as V.I. Lenin once wrote, "could not have been encompassed by 70 Marx's even. It was the greatest thing that the *laws* of these changes were discovered and the *objective* logic of these changes and their historical development in what is most important and fundamental shown" (4, vol 18, p 345). These words of V.I. Lenin could pertain not only to the changes occurring both in the world as a whole and in individual states in the phase of imperialism. They are applicable to the same extent to backward countries distinguished by a particularly complicated economic, social and political structure.

It is now becoming increasingly obvious that noncapitalist development cannot be reduced merely to a socialist orientation. Of course, its arterial direction and most likely prospect determined by all of world social dynamics was and remains socialism. The movement toward it of former colonial and dependent countries is naturally made more difficult by an absence of the material and social prerequisites of the new society and is encountering barriers erected by the old psychological stereotypes.

But despite all the obstacles, it is tenable and practicable and is proven by the experience of a whole group of countries. The determining features of the *progressive* noncapitalist path or, in other words, the presocialist society are reliance on the socialist community, leadership of revolutionary vanguard parties, the gradual subsumption of the traditional institutions with new content, the accomplishment within their framework of such tasks as primitive accumulation and the food problem, the creation of a modern industry adapted to national conditions and the introduction in the proletariat which it engenders of a socialist consciousness and the cautious and flexible transformation of communities and administrative-production associations into cooperatives, which affords a prospect of a transition to socialism with the least costs.

But in the historical period in which we are living other forms of the noncapitalist path marked by features of *stagnant or reactionary* development have emerged, it would seem. They may not only not afford an outlet to socialism but lead society into a historical impasse. Without laying claim to a comprehensive exposition, not to mention a study, we shall merely enumerate in brief three versions of reactionary or stagnant noncapitalist development.

The first is dogmatism taken to absurd lengths and accompanied by wild arbitrariness, an experiment involving millions of people and social impatience which has been made a caricature dictated not by the intent of honest, but errant revolutionaries to outpace their times but an endeavor to forcibly graft a crude, primitive communism onto a basis which at times does not even correspond to feudalism even, with whatever sacrifices it is required. Described by K. Marx as barracks communism, this current has been modified, has become practice and has justifiably acquired the appellation "pauper socialism".¹⁵

The second is immobility of the social form and the conversion of the noncapitalist path into an independent type of development, into a constant rotation, from which finding an outlet to socialism is extraordinarily difficult. The dynamism of individual sectors of the economy and social stagnation, the stability of the traditional basis and a mobile, transitory and fluctuating superstructure and a surge forward signifying in reality a slide backward are most paradoxically combined therein. In this case the revolutions accomplished here return us to the etymology of this term, borrowed from astronomy, which signified a planet's complete rotation on its axis.

And, finally, the third—ambitious attempts to become a mighty industrial power thanks to Western assistance and the introduction to the firmly established structure of elements of the developed capitalist commodity economy, which under the conditions of the nonconjugability of the traditional and modern sectors, the growing demographic squeeze and the specific mentality of the peasantry is fraught with the danger of a devastating social explosion.

China's post-revolution practice has embodied in one way or another both progressive noncapitalist development and a whole number of features of reactionary versions of the noncapitalist path (which marked the "great leap forward" and people's communes campaigns and the protracted paroxysm of the "cultural revolution") which caused serious deformations of social development.

All phenomena have their sources. In China the sources of contradictory noncapitalist development, which ultimately brought the country to the initial stage of the building of "socialism with Chinese specifics," lie in the

initial period of the national liberation revolutions, in the clash of interests of their main driving forces and in the singularities of their very broad social base.

Hu Sheng, president of the PRC Academy of Social Sciences and a leading theorist of China, determined that "the building at the present time in the PRC of socialism with Chinese specifics is in practice the realization of the socialist dream of Sun Yatsen."¹⁶ The revolutionary-democratic program of the "three popular principles" advanced by Sun Yatsen really was the first prototype of noncapitalist alternative for China and a search for an outlet toward social progress for a backward semicolonial country on the periphery of the world capitalist economy. In most general outline it rejected a repetition of the path of the capitalist West, but contained the principle of a combination of both capitalist and socialist development experience.

China's historical experience and the Chinese revolution's search for noncapitalist paths of development and social progress merits special study. It is in its own way unique and inimitable. It would be a mistake to absolutize it and seek only therein the standard of noncapitalist development. At the same time many features characteristic of social processes in the Third World also show through in China's historical experience and its contemporary development.

The Third World is not only the periphery of the world capitalist economy but also an inalienable component of the interlinked, integral system of the world economy with its opposite social poles—capitalism and socialism—and with the trend of movement common to both socioeconomic systems toward the scaling of new technological heights in the development of the future human civilization. It is truly a "whole world, which is seeking organizational forms of its effective, equal participation in the solution of questions of all of mankind. It has 2.5 billion people. And it may be foreseen that not only its impact on world politics but also original role in the shaping of the world economy of the future will grow by giant strides."¹⁷

The present-day Third World is in the midst of a difficult search for its own "character," its original role in the system of the worldwide economy and in the formation of an economic mechanism of the interaction and coupling of its opposite socioeconomic poles. Identification of oneself with the evolved habitats of this system—capitalism and socialism—is not as yet introducing in the majority of the Third World either capitalism or socialism but presupposes preliminary, transitional forms.

Regardless of the capitalist or socialist orientation in Asian and African developing countries, features bringing closer together the intrinsic essence of their polymorphous socioeconomic structures are manifesting themselves prominently. They differ more in quantitative

than in qualitative characteristics. Virtually homogeneous traditional bodies resisting capitalism in its most developed forms and perceiving merely forms of simple commodity production and an approximately identical character of the contemporary classes and particular ruling groups which are establishing themselves—a bureaucratic bourgeoisie parasitizing on state ownership—predominate in them. Common for both countries is an extremely low level of education and modern culture fettering the development of requirements and, consequently, the development of national productive forces on a modern industrial basis. And, finally, the particular role of the state in developing countries of both a socialist and capitalist orientation, which we have already mentioned and which is having a decisive impact on their socioeconomic development. Its economic functions are common for the countries of both orientations, but its social functions are different, depending on the interests of which classes and strata are served by realization of this role.

In our time the incorporation of developing countries of both a capitalist and socialist orientation not only in the system of the world capitalist economy but also in the system of the interlinked worldwide economy and the goals of the achievement of economic independence common to them, without which there can be no question of genuine national sovereignty and social progress, serve as the basis of their unification not only in the international policy of nonalignment and in the struggle for a new economic order but also in determination of social development strategy. This unity is contradictory. It falls apart upon a confrontation of ideological platforms and sociopolitical orientation and once again interacts in the implementation of socioeconomic transformations within the framework of the historically evolved world-economic relations.

The transition to higher forms of social organization via a whole number of intermediate phases for both groups of countries will be different in time, in content and in form. But in both cases specific. It may be assumed that if this long transitional process imbibing the coexistence and struggle of two opposite principles—elements of capitalism and socialism—in countries of a socialist orientation and factors contributing to the development of capitalism on the one hand and blocking it and denying it on the other in countries of a capitalist orientation is inscribed in the context of revolutions of the new type, two conclusions may be drawn.

The first is that the revolutions of the new type do not culminate in the achievement of political independence but continue to revolutionize in an openly directed or latent, concealed form socioeconomic processes on a formational dynamics scale. The revolutionizing role in countries of a socialist orientation is performed by progressive political regimes employing in their practice a combination of both socialist and capitalist experience. In countries of a capitalist orientation this role belongs to capitalist experience itself inasmuch as it contributes to

the development of the productive forces on a modern basis. But encountering the resistance of the traditional environment, which at best engenders under the impact of market relations transitional forms of production and transitional or rather "hybrid" strata and classes, preserving for the most part its primordial social character, it reproduces merely "nonclassical" or "national" capitalism. The growing processes of loss of class features and pauperization prevent the capitalization of the small and smallest industries, which is incapable of absorbing such vast traditional masses. The assertion that the problem of the "boundaries" of capitalism has become pointless is hardly legitimate against the background of these processes. The less so in that this is contrary to the determination of the spreading development of capitalism in "nonclassical" form. I believe that the problem of the "boundaries" of capitalism cannot be dispensed with as long as the traditional environment serves as a barrier to or "boundary" of its spread *in depth* and the conversion of capitalism into a national phenomenon, when alone it may acquire the logic of self-development as a capitalist *production mode*.

As long as the productive forces are developing and being revolutionized, by capitalist methods included, engendering merely the formal, and not real, subordination of labor to the new production mode, which may become a capitalist mode of production only in *unity* with the production relations, that is, bourgeois social relations based on developed bourgeois private ownership and reproducing the bourgeois civic society and bourgeois state, it is hardly legitimate to speak of the spontaneous, evolutionary development of capitalism in the majority of countries of Asian and African regions. The social magma of the traditional strata and unstable, fluctuating and vacillating superstructure are the ferment of the most unexpected historical changes and revolutionary explosions from below and reforms from above.

It is not fortuitous that the duration of these complex, contradictory processes in historical time is leading the majority of experts to the conclusion concerning the interformational status of the majority of developing countries, which will occupy, it has to be thought, a long historical period of independent significance.

The second conclusion is that if we do not change the principle of historical method presupposing a comprehension of social phenomena not only from the viewpoint of the continuity and interaction of past and present but also the determination of current historical reality by the future, the enormity of the problems of the surmounting of backwardness and the acquisition of genuine economic independence *common* to countries of both a socialist and capitalist orientation within the framework of the world capitalist economy which exists today appears as determination by a common goal, but with different social vectors. The countries of both orientations within the system of the world capitalist economy are subordinated to the inexorable laws of the

impact of the external development factor providing in sum more or less capitalism depending on the state of the productive forces and social orientation. And V.I. Li's observations that the majority of countries of a socialist orientation suffers not from a surfeit of capitalism but from its underdevelopment are perfectly correct.

An axiom of Marxist theory is the fact that socialism grows out of capitalism, which prepares the necessary condition for socialism—the horizontal socialization of production, without which the introduction of social ownership develops merely into statization, and the building of socialism, into utopia. An example of precisely this is China, which has in the last 8 years been surmounting the sorry results of the formal, and not real, socialization of production, returning with the aid of reforms from statization to the establishment of horizontal intra-economic relations via the development of market relations. Features which could in most approximate form be reduced to a common denominator emerge distinctly through the prism of the historical experience not only of the developing countries but modern China also.

Granted all the dynamism of the capitalist principles being introduced to the fabric of their socioeconomic structure, it is more correct to perceive the social status of countries of a capitalist orientation as precapitalist and as a transitional stage and historical prologue to capitalism, the end result of which is not predetermined.

In countries of a socialist orientation, where both capitalist and socialist methods of running the economy coexist and contend, the transitional period to socialism is not identical to the transitional period from capitalism to socialism. It differs from it qualitatively in its very essence since it tackles fundamentally different tasks, which in Europe were tackled down the ages back in the depths of feudalism and capitalism. All the complex problems of the specific transitional period to a socialist perspective via a whole number of intermediate, transitional phases are concentrated in the focus of compressed historical time.¹⁸

The macroformational scale of examination of the problems of the dynamics and prospects of the developing world in its unity and diversity proposed by World Economics and International Relations Institute specialists has led to the conclusion that the alternative character of the developing world as a single social organism "is nothing more than a specific feature of its intrinsic evolution within the overall framework of a secondary macroformation" (12, p 12). If specific feature in this case is understood as a specific transitional process to a higher social organization, we may agree that it possesses certain features of unity and is developing into an independent historical form. The superposing and interweaving of the fragments and rudiments of different modes of production and structures in the developing countries which still persist and the incapacity of even

the most dynamic of them for becoming formation-forming for the preponderant number of countries characterize their current formational uncertainty or interformational status. It is this most common denominator which contains their unity—a specific feature of socio-economic development common to all developing countries. It is suffused, in turn, with a diversity of national singularities and differences in development level or "specifics within specifics". Only via a cognition of these specific phenomena is it possible to reach an understanding of how common regularities of the world-historical process are manifested at the time of the developing countries' transition to more progressive formations.

But this extends the framework of the "noncapitalist development" concept, which proceeds not only in circumvention of capitalism but also by overcoming its "defects" in the countries in which it has managed to sink deep roots. "Nonclassical capitalism" in countries of a capitalist orientation and the contradictory development of countries of a socialist orientation and their fluctuation from progressive to reactionary versions of the noncapitalist path are trends which may be regarded as two alternative sociopolitical forms of the transitional status under the conditions of the long interformational condition of the developing countries. The unity and struggle of the two opposite trends within the specific historical "noncapitalist" form is the dialectical basis of their common, but extremely contradictory development. Abrupt historical changes, zigzags and fluctuations are not an anomaly but the normal path of noncapitalist development, which in our time is not a total denial of capitalism but accommodates both capitalist and socialist development experience, relying on the economic laws inherent, as V. Sheynis rightly observed, in both socioeconomic systems (1, p 82). We can in this case agree with V. Sheynis that an economic mechanism is taking shape in the Third World which "is not specifically capitalist or socialist. It is a mechanism adequate to the development of the present-day productive forces and ambivalent in respect of capitalism and socialism (and taking into consideration also the specifics of the developing economy and society in respect of the traditional sector)" (1, p 85).

In the modern era, when the movement of the world-historical process has run into global problems threatening the survival of mankind as a race, the world revolutionary process has become extremely complicated. Against the background of new contradictions of capitalism born of the technological and microelectronic revolution all the fundamental fetishes of capitalism: industrial growth, production for the sake of profit or oneself, prestige in the name of wealth and wealth in the name of prestige and the sacrifice of all spiritual values for the sake of ice-cold egoistic calculation are being eroded. General disenchantment with the capitalist form of S&T progress has been intensified by the ecological crisis and nuclear danger looming over mankind as an irreversible catastrophe.

Many Western plans of development for the emergent countries, recommendations of the Club of Rome and the United Nations, for example, are undergoing a forced reevaluation. Progressive economists are proposing a curb on industrial growth and its commensuration with the socio-cultural singularities and demographic position and possibilities of the environment and outlining measures pertaining to the gradual transformation of communities, seeing them as an outlet to social progress. The capitalist world is retreating under the pressure of national revolutions and the complex realities of the age and the new ideas born of *perestroika* and the new political thinking.

The very strategy of socialism also is becoming clearer for the broad working masses of West and East. It appears not simply as an industrial and technological colossus but a balanced society in which industry and agriculture, medicine and education and production and the infrastructure are harmoniously combined. Its purpose, contrary to the declarations of Western critics of the socialist system, is not the creation of a "consumer society," which has compromised itself in the West, but a guarantee of reasonable limits of life's blessings necessary for man's all-around development.

Footnotes

* See S.L. Agayev, "Political Realities of the Developing World and Social Dialectics" in *RK i SM* No 6, 1987.

** Thus in July 1987 the Supreme Council in Sudan declared a state of emergency throughout the country for a term of 1 year, which "will permit an effective struggle against market chaos, speculation in goods and foreign currency and dealers' violations of official prices." (*PRAVDA*, 27 July 1987).

1. See V.L. Shevnis, "The Developing Countries and the New Political Thinking" in *RK i SM* No 4, 1987.

2. See B.R. Asoyan, "Africa Is Not That Far Away Now" *LITERATURNAYA GAZETA*, 7 October 1987.

3. B. Sin, "Le marxisme devant les societes africaines contemporaines," Paris, Dakar, "Presence africaine," 1983, p 58.

4. V.I. Lenin, "Complete Works"

5. "Political Systems in Countries of a Socialist Orientation," Moscow, 1985, p 175.

6. "The Socialist Orientation. New Political Thinking," *AZIYA I AFRIKA SEGODNYA* No 8, 1987, p 27.

7. K.N. Brutens, "Present-Day National Liberation Revolutions," Moscow, 1974, pp 21-29.

8. "Revolution and Reform in the National Development of Countries of the East," *AZIYA I AFRIKA SEGODNYA* No 9, 1985, pp 24-31.

9. See "Evolution of Oriental Societies. Synthesis of the Traditional and the Modern," Moscow, 1984.

10. K. Marx and F. Engels, "Works".

11. "Capitalism at the End of the Century," Moscow, 1987, p 225.

12. See "The Developing Countries in the Modern World. Unity and Diversity," Moscow, 1983.

13. Ye. Primakov, "Capitalism in an Interrelated World," *KOMMUNIST* No 13, 1987, p 108.

14. A. Sekou Toure, "L'Afrique en marche," vol X, Conakry, 1967.

15. See R. Kosolapov, "Insult to the Idea," *KOMMUNIST* No 14, 1979.

16. Quoted in S.L. Tikhvinsky's account. See "Problems of China's History at International Conferences in the PRC," *PROBLEMY DALNEGO VOSTOKA* No 3, 1987, p 116.

17. M.S. Gorbachev's report "October and *Perestroika*: the Revolution Continues" at the ceremonial session devoted to the 70th anniversary of the October Revolution in *PRAVDA*, 3 November 1987.

18. See "Theoretical Problems of the Transition to Socialism of Countries With an Undeveloped Economy," Moscow, 1983.

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Foreign Economic Work of Specialized Banks Described

18250004a Moscow DENG I KREDIT in Russian
No 7, Jul 88 pp 15-18

[Article by Yu.V. Ponomarev, chief of the Economic Currency Administration and board member of the USSR Gosbank: "Foreign Economic Aspects of the Activities of Specialized Banks"]

[Text] A radical restructuring of the management of foreign economic ties has begun in accordance with party and government decisions. In this sphere, as in other sectors of the economy as well, it means above all further democratization and decentralization, the transition of enterprises to independent foreign economic activities on cost-accounting principles.

A characteristic trait of this process is the appearance of a whole series of new subjects of foreign economic turnover. These are enterprises carrying out direct production ties with partners from CEMA member-countries; leading scientific organizations participating in the implementing the Comprehensive Program of Scientific and Technical Progress of CEMA Member-Countries by the Year 2000; newly created foreign trade organizations under the ministries and Councils of Ministers of the union republics; the foreign trade firms of enterprises and organizations and intersectorial scientific and technical complexes; cooperatives and their associations; and joint enterprises and international associations.

On 1 January 1988, the USSR law on state enterprise (association) entered into force, implementation of the provisions of which has a considerable impact on all aspects of the activities of enterprises and associations, including interrelationships associated with their foreign transactions. It determines that foreign economic activities of enterprises are accomplished, as a rule, on a currency self-repayment and self-financing basis, its result is an organic part of the results of economic activities of the enterprises, and affects the formation of economic incentive and currency deduction funds.

The USSR Law On Cooperatives in the USSR, which entered into force on 1 July 1988, provides for the active participation of cooperatives and their unions (associations) in foreign economic activities.

All of this places before the banking system and the USSR State Bank [Gosbank], as the country's main bank, a number of new tasks for improving the credit payment and currency servicing of foreign economic ties.

After the adoption in August 1986 of resolutions which determined the means for radical improvement of the management of the country's foreign economic complex,¹ the Gosbank began work to prepare a bank system for serving clientele in the new conditions.

Thus, in 1987 the USSR Gosbank and the USSR Foreign Trade Bank jointly developed and implemented a credit and payment procedure into banking practice for participants of direct ties with CEMA member-countries. It is based on the need for accelerating the receipt of export earnings and obstacle-free use of their own currency resources by bank clients and the maximum simplification of the payment procedure. With the consent of the USSR Ministry of Finance and a number of other organizations, a bank servicing scheme was also developed and put into operation for foreign trade firms of associations and enterprises given the right of direct access to foreign markets. In accordance with the decisions regulating questions of creating and operating joint enterprises and international associations on the territory of the USSR, a procedure for credit payment and currency servicing of this group of clientele was developed.

Banks are constantly rendering practical and consultative assistance in various forms to the ministries, departments, associations, enterprises and organizations on questions of their foreign economic activities.

Export-import and other foreign economic transactions of the enterprises being serviced by the banks are one of the elements of their production and investment activities. Experience shows that steady growth of export potential can be attained only as a result of introducing modern technology and the producing products which are competitive on the world market. Fulfillment of this task is facilitated by specialized banking institutions charged with the responsibility to develop and stimulate through progressive crediting methods enterprises' initiative to raise the technological level of production and increase output of new, high-efficiency products for both the domestic market and export.

The responsibility of specialized banking institutions locally to conduct this work effectively is also emphasized in the USSR Law on State Enterprises (Associations), which stipulates that the enterprise resolves all questions associated with crediting at credit institutions at the location of opening the payment account or account for financing capital investments. The same also applies to the servicing of joint enterprises being created in various locations on the nation's territory, each of which is carrying out export-import transactions. It can now definitely be said that as foreign economic activities are decentralized and new groups of banking clients are involved in them, all specialized banks of the USSR will be actively involved in conducting international transactions.

It must be noted that financing and payments of foreign trade firms of enterprises having the right of independent access to foreign markets have a number of peculiarities. There is the need to work with documents in foreign languages, the use of various forms of payments employed in international practice, and a number of others. Taking this into account, foreign trade firms of

enterprises are serviced by institutions of the USSR Foreign Economic Bank in those centers which have these institutions. At the same time, the USSR Agroprombank, USSR Promstroybank, and USSR Zhilotsbank must now provide service to foreign trade firms of enterprises which have obtained the right of independent access to foreign markets in those places where the Foreign Economic Bank cannot provide them the necessary assistance.

In the final analysis, the question of the advisability of bank servicing of foreign economic activities of enterprises and organizations directly by specialized banking institutions or institutions of the Foreign Economic Bank (and, consequently, possibly by cooperative and commercial banks) must be resolved based on the economic feasibility and cost-accounting interests of banks and the clientele they serve. The practice of independent selection of credit institutions, provided for in particular by the Law On Cooperatives in the USSR will show which of the enterprises participating in foreign economic turnover will be assigned to one bank or other.

Specialized banks may make payments abroad by agreement with the USSR Foreign Economic Bank. These payments must be made by specialized banks from the accounts opened in their name in foreign banks. To do this, they would be required to conclude correspondent agreements with foreign banks, open accounts in them in foreign currency, and organize the conduct of transactions for attracting and investing currency resources in money and currency markets, which in turn makes it necessary to accomplish a series of measures for organizational and personnel support of these specific transactions. Independent conduct of the whole cycle of payments for the export of commodities abroad by specialized banks also assumes the availability of a qualified staff familiar with the various forms and instruments of such payments. In the process of conducting guarantee, letter of credit, and other transactions, specialized banks will have to analyze the solvency of foreign contractors and determine the permissible maximum scale of risk on transactions with them and solve other practical problems.

In the majority of industrially developed countries, including the socialist countries, the conduct of international transactions is not an exclusive right of any one banking institution, since such a monopoly only impedes the effective and flexible organization of work, without being a panacea for all possible problems associated with attracting resources from international markets.

At the same time, one cannot help but see that specialized banks are not yet ready for the independent conduct of international transactions and that thorough, purposeful preparation is required to regulate this work.

Publication of regulations and annual reports in a foreign language in a form generally accepted in international banking circles is required, in particular, specialized banks to make international payments associated with servicing foreign trade.

As the experience of international banking relations shows, without open publication of specific minimum amount of information about any new participant in the credit market, set forth taking into account international norms and customs, Western banks will not begin working with them. One must also take into account the growing requirements on the qualitative aspect of the structure of bank balances (for example, on the correlation of bank stock and the volume of the balance), the recommendations devised by the Bank for International Settlements for monitoring banking activities used in international practice both with respect to purely commercial banks and to banks whose capital belongs to the state.

On the whole, specialized banks must adopt methods, which only the Foreign Economic Bank currently possesses, of conducting the most varied types of international banking transactions for operating independently in the world market.

Until specialized banks—Promstroybank, Agroprombank, and Zhilotsbank—are given the right to conclude independently correspondent agreements with foreign banks, open accounts in them, and attract and invest currency resources, they will have to extend currency credit to enterprises, associations and organizations by means of currency resources which may be obtained by them from the Foreign Economic Bank.

Relations between banks on payment and credit matters must be built on a contract basis with the conclusion of the necessary correspondent agreements and opening of balanced mutual accounts for ensuring monitoring of timeliness of installation and commissioning of imported machinery and equipment purchased with foreign currency credit and also monitoring the observance by borrowers of the delivery terms of export commodities, the earnings from the sale of which are used toward repayment of Foreign Economic Bank credits in foreign currency.

The conduct of transactions on the basis of such agreements must be paid for in accordance with the commission remuneration tariff for services rendered, which the USSR Council of Banks will have to approve.

In our opinion, when specialized banks obtain the appropriate powers and after completion of the necessary preparatory work, these banks, with the participation of the Foreign Economic Bank, could begin transactions on attracting credit in foreign currency for forming resources necessary for granting currency credits to their clients.

Thus, the conduct of such relatively technically simple transactions by specialized banks would make it possible to concentrate in one bank all sources of domestic (in rubles) and foreign (in foreign currency) credit for construction and modernizations of enterprises, which should contribute to strengthening bank monitoring and

increasing the responsibility of both enterprises and creditor banks for the most rapid receipt of output from facilities being put into operation and ensuring their currency self-repayment.

The resolution adopted on 17 September 1987 on future improving foreign economic activities² provides for the possibility of associations, enterprises and organizations, and also ministries and departments transferring the resources of their currency reserves to other organizations and banks under mutually beneficial conditions, including payment of interest.

In this regard, proposals on keeping the resources of currency reserves of enterprises not only in the accounts of the Foreign Economic Bank but also in the institutions of specialized banks directly serving the enterprises locally are of definite interest. For example, correspondent accounts in various currencies can be opened in the name of each of these banks on the balance of the Foreign Economic Bank. In analytic calculation, the personal accounts of the owners of the resources of currency reserves would be held only on the balances of the corresponding specialized banking institutions locally. Only experience and experimentation can provide an answer on the feasibility and cost-effectiveness for banks and enterprises of introducing such a form of keeping currency reserves.

When granting foreign currency credits by the Foreign Economic Bank to specialized bank clients, these banks may jointly conduct examinations, including an analysis of the technical and economic validity of the projects being financed and the borrowers' financial situation. For ensuring their clients the best currency crediting conditions, specialized banks can participate in negotiations conducted by the Foreign Economic Bank with foreign banks supplying the Foreign Trade Bank with appropriate currency resources while they attract credits for specific projects.

At the present time, despite the increasing participation of the Promstroybank, Agroprombank and Zhilotsbank in the credit-settlement support of foreign economic ties of the enterprises and associations they service, the Foreign Economic Bank's role in organizing international payments remains central and decisive.

The Foreign Economic Bank is drawing up and publishing, in coordination with the State Bank, instructions, directions and other normative documents which regulate, taking into account existing international practice, the procedure for making international payments for import and export transactions with socialist, capitalist, and developing countries. Normative documents on intra-union payments for import and export transactions are jointly prepared and approved by the State Bank and Foreign Economic Bank with the involvement of other specialized banks.

The Foreign Economic Bank makes international payments for export and import transactions with socialist, capitalist, and developing countries of all the clientele serviced by them and also carries out accounting and monitoring the receipt of export earnings for timeliness, and enters them into clients' accounts in the Foreign Economic Bank or into the accounts of export commodities suppliers in specialized banks.

Specialized bank institutions locally can make the payments of Soviet enterprises and organizations for all types of export transactions. When making clearing payments for exports with socialist, capitalist, and developing countries in transfer rubles, in freely convertible currency, in closed currencies, specialized banks located at the clients' location or at USSR ports (at border stations) receive, check, and dispatch documents upon notification of the Foreign Economic Bank, and also request payments at foreign banks.

As specialized banks accumulate experience in the credit-settlement servicing of foreign economic ties and also after a number of organizational questions are resolved, the list of transactions conducted by specialized banks in the foreign economic sphere may be expanded.

Based on cost-accounting principles of banking activities, the specialized banks must obtain a commission from the Foreign Economic Bank for conducting this work on the basis of contracts concluded with the Foreign Economic Bank in amounts sufficient to cover expenses and make a certain profit.

The USSR Gosbank, like other economic bodies, is actively involved in carrying out tasks connected with the restructuring of the management of the national economy set forth by the 27th CPSU Congress. In particular, the USSR Gosbank is coordinating the work for developing international transactions on a scale of the entire banking system. The changes being made in foreign economic activities are taking place simultaneously with banking reform. What has been done up to the present time is essentially only the first steps of restructuring the banking business and organizing credit-settlement support of the country's developing foreign economic ties.

Footnotes

1. Resolutions of the CPSU Central Committee and USSR Council of Ministers "On Measures for Improving Management of Foreign Economic Ties" and "On Measures for Improving Management of Economic and Scientific and Technical Cooperation with Socialist Countries" (Supplement to the magazine VNESHN-YAYA TORGOVLYA, No 2, 1987).

2. Resolution of the CPSU Central Committee and USSR Council of Ministers "On Additional Measures for Improving Foreign Economic Activities in the New Conditions of Economic Management." (EKONOMI-CHESKAYA GAZETA, No 41, 1987)

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Credit Operations Under New Foreign Economic Operations

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[Article by G.I. Vasilyev and S.S. Galanov, candidate of economic sciences: "Credit-Settlement Servicing of New Forms of Foreign Economic Ties"]

[Text] The June 1987 Plenum of the CPSU Central Committee determined the basic provisions of the radical restructuring of management of the economy, including the role of the finance and credit mechanism in introducing the principles of cost-accounting and currency self-repayment in the area of foreign economic activities. The 17 September 1987 resolution of the CPSU Central Committee and the Council of Ministers "On Additional Measures for Improving Foreign Economic Activities in New Conditions of Economic Management" gave concrete expression to the tasks and possibilities of further improvement in the area of increasing the effectiveness of foreign economic ties, their effectiveness in the interests of priority sectors of the national economy, taking into account the requirements of the USSR Law on State Enterprises (Associations).

The essence of these decisions is directed at creating a stable base for developing exports, strengthening the vested interest of all levels of the economy in developing of international cooperation, accelerating the introduction of the latest achievements of science and technology, and developing new forms of foreign economic activities which ensure the direct participation of industrial associations, enterprises, and other economic organizations in our state's foreign economic cooperation with socialist and capitalist countries.

The main participants in the new forms of foreign economic activities in the first stage of restructuring became the foreign trade organizations created under sectorial ministries and departments and the Councils of Ministers of the union republics: cost-accounting foreign trade firms of production associations, enterprises, organizations, interbranch scientific and technical complexes (MNTK) which have been given the right to conduct export and import transactions directly, as well as associations, enterprises, and organizations of the USSR which are entering into direct production-cooperative

and scientific and technical ties with partners from CEMA member-countries with the authorization of sectorial ministries and the Councils of Ministers of the union republics.

In 1986-1987, granting 26 ministries and departments and 80 associations, enterprises and organizations the right to establish direct ties with foreign partners and independent access to foreign markets, in essence signifying the decentralization of the USSR's foreign economic ties, significantly affects the present banking mechanism of supporting foreign trade turnover and economic cooperation with other countries.

Presently, the banks' work to carry out these tasks set by the decisions is being conducted along the following basic directions.

This is, first of all, drawing up jointly with other interested departments and organizations normative documents and materials regulating credit and payment support of foreign trade activities. In doing so, the earlier existing and still effective principles, forms and methods of crediting, the terms and forms of international and domestic payments are being critically reviewed for the purpose of making maximum use of all that is positive and has proven its value in this area.

As experience is gained, the procedure for crediting and making payments will be refined and improved.

It should be noted that a main, qualitatively new problem requiring a special solution in this stage of reorganizing the foreign economic complex is ensuring functional unity of the circulation of commodity and monetary assets of the participants in foreign economic ties by means of organizing the credit and payment servicing of export and import transactions with foreign countries in the first stage through the USSR Bank for Foreign Economic Relations.

This peculiarity in organizing transactions in foreign trade activities of associations, enterprises, and organizations located throughout the country has been reflected in the appropriate normative and instructional documents.

Let us examine how the banking credit and payment support of the new forms of foreign economic activities is being structured at the present time and how it will be structured in the first stages of restructuring.

Foreign trade organizations established in the sectorial ministries are serviced by the USSR Bank for Foreign Economic Relations [Foreign Economic Bank], and the procedure established for foreign trade associations of the Ministry of Foreign Economic Relations for making payments and crediting for export and import transactions also applies to them. These organizations obtain Foreign Economic Bank credit against the security of

export and import commodities which are in warehouses, in ports and in transit to the USSR and abroad; against drafts and bills of exchange and other payment documents made out to foreign buyers; against payment documents in transit; transactions on exchange of commodities; and also against other requirements associated with the export of commodities and the rendering of services. Credit can also be granted against above-norm surpluses of physical assets located in domestic economic turnover of foreign trade organizations and their cost-accounting sections.

Managers and specialists of the economic services of ministries and departments with foreign trade organizations under their authority should bear in mind that timely submission of annual credit requests to the Foreign Economic Bank with the necessary payments in the agreed form and in the established time period, and also payments of the proposed debt on commercial credit extended by other countries' firms serve as a guarantee of receiving the necessary resources for making settlements both with Soviet suppliers and clients and with foreign partners throughout the operating year.

Here the goals, time periods, and methods being proposed for extension of credit are more precisely defined in each individual instance depending on the type and volume of transactions being carried out by the appropriate foreign trade organization using their own working capital (if they have such capital).

Currency accounts for payments under direct ties and accounts for keeping track of receipts and payments of currency reserves are opened in the Foreign Economic Bank and its republic banks for Soviet associations, enterprises, and organizations which carry out direct ties with firms of socialist countries. The latter are formed in enterprises and organizations by deductions according to standards established by the USSR Council of Ministers for 1987-1990, the funds of which are spent for the import of machinery and equipment for the needs of technical re-equipment and modernization of enterprises and organizations.

Receipts in transfer rubles due enterprises or organizations are entered into a currency account for payments under direct ties and are simultaneously discounted in the non-balance account of the receipts and payments of the currency reserves of the enterprises and organizations in the Foreign Economic Bank, in which all of an enterprise's currency earnings which are received by it in a established amount accumulate and the funds due in Soviet rubles to participants in direct ties are credited to its account in the specialized banking institution which finances the enterprise's or organization's main activities.

The funds designated for payments in Soviet rubles are used by a participant from his account in the specialized banking institution at the participant's location, but in

transfer rubles from the non-balance account of the discount of receipts and payments of the currency reserve in the USSR Foreign Economic Bank.

In individual instances, by agreement with the Foreign Economic Bank, a balance currency account in the Foreign Economic Bank may be opened for a direct contact participant for discounting receipts and payments of the currency reserve.

In this case, the currency earnings from the export through direct ties is entered in this account (without transfer of Soviet rubles into the account of the specialized banking institution.) Funds for imports are also directly charged off this account for discounting receipts and payments of the currency reserve (without charging the ruble equivalent off the enterprise's account in the specialized banking institution.)

The managers of ministries and departments, associations, enterprises, and organizations have personal responsibility for the efficient and effective use of currency assets in the interests of developing production and for strict observance of the 19 August 1986 and 17 September 1987 resolutions of the CPSU Central Committee and USSR Council of Ministers.

Currency accounts for payments under direct ties are opened by the Foreign Economic Bank based on the direct ties participant's application signed by the manager and the chief accountant. A statement in the prescribed format is attached to the application which indicates the organizations and CEMA member countries' firms with which direct ties are being established and the participant's specialized banking institution account number. By agreement between the participant and the Foreign Economic Bank, currency accounts may be opened in a branch of the Foreign Economic Bank where the direct contact participant is located.

The Foreign Economic Bank informs the direct ties participant of the account number so that the latter can inform his direct ties partners in CEMA member-countries of it and must indicate this number in the appropriate settlement documents.

The sectorial ministry takes into account information on the proposed cost volume of receipts and payments for direct ties transactions in each planning period and submits them to the Foreign Economic Bank twice a year along with information about the volumes of receipts and payments for other transactions in transfer rubles.

In order to ensure uninterrupted payments for conducting scientific and technical work and developing effective production associated with cooperatives, the direct ties participant may obtain payment credit at the Foreign Economic Bank if he does not have funds in the currency reserve account at that moment. Credit may be obtained in the sum not exceeding the amount of the credit limit established by the Foreign Economic Bank

for each direct ties participant. Moreover, in the event of insufficient validity of the requested limit and also in the event of violation of existing rules by the borrower, the limit may be lowered, and the bank informs the ministry about this. The bank may also increase the credit limit based the borrower's substantiated application.

The participants' attention is directed to the fact that the time period during which the direct ties participant can use the payment credit must not exceed 90 days. An interest rate of 2 percent per annum is charged on the sum of the credit debt until it is completely repaid.

When the borrower does not observe the credit terms, the bank has the right to apply sanctions against the borrower, reducing the established credit limit and thus limiting the volume of his transactions, and also to use funds of the guarantor—the sectorial ministry—for repayment of credit, which forces the latter to strengthen monitoring of its ward's activity and to take additional steps to improve the results of its work.

In addition, the bank can completely write off the direct ties participant's debt at the expense of current receipts without reflection under the appropriate articles of the ministry's currency plan and recording these receipts in its fulfillment. An increased interest penalty for late credit debt repayment in the amount 10

of the debt sum per annum is also an effective measure for the bank to influence the client to observe payment discipline.

When necessary, the direct ties participant may obtain credit for a term longer than 90 days, but also under different terms stipulated in a separate agreement concluded between the borrower and the bank.

Credit and payment support of foreign economic activities of foreign trade firms (VTF), scientific-production and production associations, enterprises, and other participants in the forms of economic and scientific and technical cooperation stipulates that contracts for foreign trade transactions with foreign firms will be concluded without the participation of the foreign trade associations of the Ministry of Foreign Economic Relations and the sectorial ministries. Moreover, the VTF financial accounting staff must bear in mind that settlements with firms of socialist countries (other than Yugoslavia) are made in the form of documented collection with subsequent acceptance, but settlement with firms of capitalist and developing countries (including India) are made in the form of collection with prior acceptance and a documented letter of credit.

Payments for exports begin in the specialized banking institution servicing the industrial association, enterprise and its VTF. After shipment of the commodity abroad, the enterprise's VTF draws up the payment and

documents of title in accordance with the terms of the contract and submits them to the specialized banking institution for verification, remittance abroad, and demand for payment.

One should not forget that the documents for VTF settlement with purchasing firms in CEMA member-countries and Finland are drawn up, as a rule, in the Russian language. For other countries they are drawn up in the language of the foreign trade contract.

For shipments of commodities from Soviet ports, the enterprise's VTF may take advantage of the assistance of specialized organizations, having charged the Soyuzvneshtrans All-Union Association of the Ministry of Foreign Economic Relations with making out invoices on its behalf to foreign purchasers, since it has much experience in decentralized payments and a broad network of branches. On instructions of the production association or enterprise (VTF), the specialized banking institution financing their main activities may also transfer the execution of a transaction on drawing up invoices to foreign purchasers to another banking institution located at the point of shipment of commodities abroad.

The Foreign Economic bank monitors receipt of export earnings and accounts for receipts in accordance with the currency plan. Upon receipt of funds in a foreign currency, which is destined for an enterprise (VTF), the Foreign Economic Bank transfers the equivalent of this sum in rubles using interbranch turnover (MFO) to the specialized banking institution servicing the VTF. The conversion of foreign currency into rubles is made at the Gosbank's rate of exchange effective on the date of the funds transfer.

Import payments are made through the Foreign Economic Bank. When making payments in the form of collection with the prior acceptance, the Foreign Economic Bank sends to the banking institution in which the enterprise's (VTF) account is opened the collection order received from the foreign bank with the documents of title attached to it, which are handed over to the payer against a receipt. In doing this, the enterprise submits a general obligation in the prescribed form. The documents are at the disposal of the Foreign Economic Bank until their acceptance or full payment.

It should be kept in mind that collection by the term of payment upon presentation is paid within 2 weeks from the day the documents are received by the specialized banking institution. Monitoring of timely payment or the timely return of documents in the event of full or partial refusal is carried out both by the Foreign Economic Bank and by the specialized banking institution.

When paying the collection order and acceptance drafts, the enterprise's VTF submits a payment order for the transfer of the ruble equivalent of the payment with the attachment of a statement for currency transfer abroad

in the prescribed form, which is sent to the Foreign Economic Bank together with the appropriate MFO letter of advice for the sum of the ruble equivalent.

A somewhat different procedure is in effect when making payments in the form of a letter of credit. In this case, the enterprise's VTF initially submits a payment order to the banking institution for the transfer of the ruble equivalent in the sum of the letter of credit being opened with the attachment of a statement on opening a letter of credit, which is sent to the Foreign Economic Bank together with the MFO letter of advice. Payment documents received from a foreign bank are paid by the Foreign Economic Bank and sent to the specialized banking institution for transfer to the enterprise. Differences in exchange rates which arise are transferred or recovered from the enterprise's payment account on the basis of the appropriate Foreign Economic Bank MFO letter of advice.

Crediting the foreign economic activities of enterprises in rubles is accomplished, as a rule, by specialized banking institutions at the location of this enterprise. Enterprises are granted loans in the form of direct, tied, term, reimbursement, and paid crediting against export and import commodities, services rendered, securities, and other payment documents, and also against expenditures for foreign economic activities.

Crediting of the export transactions of enterprises is conducted on a separate loan account opened by the specialized banking institution crediting the enterprise's main activities on the basis of the enterprise's application with the attachment of a statement-obligation in the prescribed form.

In doing so, special attention is directed to the guarantee of payment for commodities sold on installment terms. As a rule, receipt of a foreign bank guarantee is required from the enterprise (VTF), and if it is not possible to receive of bank guarantees with authorization of the ministry or department, guarantees of solid foreign firms or insurance companies.

The VTF specialists must take into account that banks accept as security for credit shipped commodities or services rendered, the payment documents for which are made out to the foreign purchasers at the specialized banking institution not later than 4 days after receipt of the shipping documents necessary for making out the invoice and not later than 21 days from the date of shipment of the commodities from a USSR port at road, and when the invoice is made out to the foreign purchasers by offices of the Soyuzvneshtsentrans All-Union Association at the commodity shipment points—not later than 14 days from the date of shipment.

Moreover, shipped commodities for which payment (acceptance) refusal or foreign bank notification on delay of payment (acceptance) has been received is not accepted as credit security.

Crediting of import transactions is done in accordance with existing procedures, but payments in favor of foreign firms are made regardless of the status of settlement with the bank and application of credit sanctions in the procedure prescribed for settlements with foreign trade associations of the Ministry of Foreign Economic Relations. Payment of imported equipment is made from capital investment financing accounts.

As a rule, foreign currency crediting of ministries, industrial associations, enterprises and organizations, VTF, scientific and research institutes, and foreign trade organizations is done by the Foreign Economic Bank.

The bank grants ministries, organizations, and industrial associations credits in transfer rubles, in national currency of CEMA member-countries, and also in freely convertible and closed currencies of capitalist countries for purchase of commodities abroad not provided for by the import plan and also for licenses necessary for conducting organizational and technical measures directed at increasing production and improving the quality of export products. Besides this, credit in a foreign currency can be used for carrying out scientific, technical and research work, increasing the efficiency of production facilities associated with cooperatives and the Comprehensive Program of Scientific and Technical Progress, strengthening the country's export base, and conducting anti-import measures in sectors of the national economy.

Credits for these purposes are granted for terms up to 8 years, since they are of an investment nature. In addition, credit in foreign currency can be granted for up to 2 years against future foreign currency earnings to support borrowers' current activities, taking into account the pace at which export contracts are being concluded.

As a rule, credit is granted against the guarantee of a higher ministry which provides for the Foreign Economic Bank's right to an unconditional charging off of funds from this ministry's currency and ruble accounts if the borrower cannot fulfill his obligations in a timely manner, i.e., turns out to be insolvent. Specialists of economic services of a borrower and guarantor must carefully calculate their capability, taking into account that credit in foreign currency is granted by the Foreign Economic Bank under normal commercial terms, that is, with extra interest charges in foreign currency on the unpaid portion of the credit indebtedness at world money market rates, and the interest rates, as a rule, are established for a quarterly period and depend on their movement in the foreign market. The amounts of the interest charged and also exchange rate differences are applied in full to the borrower's bill, although not included in the overall credit limit by the bank.

A potential borrower or bank client must also know and take into account that the main source of repayment of a credit debt, payment of extra interest charges, and exchange rate differences primarily the currency reserve

assets of the borrower and/or his guarantor. Currency earning from the export of products sold by the borrower or under his guarantee by a foreign trade organization may also be directed at repayment of credit if this is determined by appropriate decisions.

The borrower must use foreign currency credit strictly for the intended purpose and ensure the timely installation and commissioning of purchased equipment and machinery, as well as their efficient use.

It should be noted that this form of assistance by a bank in strengthening a country's export base, increasing the technological level of individual sectors of industry, improving technology, and improving the quality of production output, as well as producing new types of commodities for Soviet export has proven its worth as one of the most effective credit transactions of a bank from the standpoint of national economic interests as a whole.

As a result of the import of machinery, equipment and production lines using foreign currency credit granted by a bank to ministries and/or individual enterprises, labor productivity at these enterprises is increasing significantly, production costs are being reduced, product quality is improving, problems of production "bottlenecks" are being resolved, and the volume of deliveries of high-quality export commodities is growing. As experience shows, machinery, equipment, production lines, and individual shops purchased with currency credits are installed and put into operation in more compressed time periods than through planned import, and equipment, as a rule, operates stably and reliably. Using foreign currency credits, enterprises can also satisfy their needs for complete sets of items, raw materials and other materials, and other expenditures associated with current activities.

Credit and settlement servicing of production, commercial-financing, and economic activities of joint enterprises involving foreign capital in various forms can be accomplished both with Soviet banks and, with the consent of the latter, with foreign banks.

The funds of joint enterprises in rubles are kept in their settlement accounts opened in banking institutions at the location of the joint enterprises.

The participants of a joint enterprise should keep in mind that for opening a settlement account, besides the statement on opening the account and the notarized copies of the parties' agreements on establishing a joint enterprise and its Charter, it is also necessary to provide the bank a notarized copy of the USSR Ministry of Finance reference confirming the registration of the joint enterprise and the signature card of the individuals authorized to use this enterprise's credits.

If necessary, a joint enterprise may resort to the assistance of banks for covering current expenditures of a short-term nature. In this case, credits are granted by the banks for payment and against surpluses of raw materials and other materials, expenditures of future periods, and other production expenses, against shipped commodities (payment terms for which have not yet come due), against opening of letters of credit, etc.

Loans against commodity stocks secured by liens against these stocks and/or by other types of security accepted in international banking practice (guarantees, warrants, etc.)

To determine the required amount of credit, workers of the economic services of joint enterprises calculate and submit to the bank a request for credit for the forthcoming year, which is reviewed by the bank together with the joint enterprise participants, and the amount of credit determined in this manner by the bank and the enterprise is the credit limit.

Payment of settlement documents for commodity stocks and services, and also the opening of letters of credit are done through a loan account (in the absence of funds in the settlement account) within the free crediting limit. Loan repayments are made at the dates agreed upon in the credit application or early under a guarantee of the enterprise. A joint enterprise having allowed an overdue debt on bank loans of over 2 months is deprived of the right to further crediting, and all earnings which come in are directed at repayment of the overdue loan indebtedness.

Banks carry out systematic monitoring of the purposeful use, security, and timeliness of repayment of the credits granted to a joint enterprise. When necessary, specialists of the bank crediting a joint enterprise accomplish on-site checks of the security of credits directly at the enterprise.

Founders of joint enterprises must keep in mind that the enterprise usually secures its needs for foreign currency by its own assets (charter fund and reserve capital). However, if necessary a joint enterprise may use foreign currency credit obtained at normal commercial terms at a Soviet bank or, with its consent, at a foreign bank or from foreign firms. The main source for repaying foreign currency credits in this case is earnings from the sale of commodities delivered for export.

Short-term foreign currency credits granted by banks for the purchase of imported raw materials, materials, manufactured articles, or other commodities are given for a term of up to 2 years. In addition, joint enterprises may obtain credits for even longer terms if this involves the import of equipment, machinery, licenses, and other commodities, as well as services rendered for developing projects associated with strengthening the enterprise's material and technical base.

The terms for repaying such credits are determined by the banks depending on the recovery period of the measure being financing.

All assets belonging to a joint enterprise, which are accepted in international practice and which have a monetary nature, can be used as security for medium- and long-term foreign currency credits.

If the bank finds out the joint enterprise has an unsecured indebtedness, it has the right to demand payment of such indebtedness in any sort of foreign currency assets which the enterprise has in its accounts.

Foreign currency crediting of joint enterprises is carried out by a Soviet bank under normal commercial terms, that is, with the extra interest charges on the unpaid portion of the credit indebtedness at current world money market rates for the appropriate currencies.

When a bank grants foreign currency credit, it collects a commission from the borrower for the obligation in the amount of 0.5 percent per annum from the unused portion of the credit granted. In addition, the borrower compensates the bank for the expenses paid by it to its correspondent for services received, and also for telegraph and other expenses associated with the use of credit, as well as the currency exchange rate difference which arise during changes in the exchange rate of the currencies in which foreign trade contracts are concluded and signed for the use of credit received at the bank.

All of these terms are clearly stipulated in the credit agreement concluded between the bank and the borrower and governing the procedure for granting of loans in foreign currency, their use, the procedure and terms of payments, extra charges and interest payments, and repayment of the borrower's indebtedness.

In the event of non-payment by the borrowing enterprise of the credit debt and/or the interest charged at prescribed time periods, the bank reviews the reasons for late repayment of the debt and at its own discretion charges off funds in the borrower's currency account or grants a temporary deferment, increasing the credit interest. In the absence of funds in the borrower's currency account, the unpaid overdue amount of indebtedness is treated as an overdue foreign currency credit indebtedness with an additional charge of a 3 percent per annum interest above the rate established by the credit agreement. In addition, inducing the borrower to observe the terms of the agreement and the precisely fulfill his obligations to the bank, the bank can call for the immediate payment of all existing credit indebtedness and impose an additional 3 percent annual interest, and also recover all remaining funds in the borrower's accounts and apply all incoming earnings to repayment of the credit indebtedness.

When signing a credit agreement with a joint enterprise, special attention of the participants is directed to the unconditional obligation of fulfilling the bank's rules, since systematic violation by the borrowing enterprise of the terms of the credit agreement or the banking requirements and recommendations forces the bank, in accordance with the terms of the financing agreement, to use its right and halt further use of credit and/or demand early repayment by the borrower of all foreign currency credits granted him earlier.

If supply of joint enterprises and the sale of their products is conducted through the mediation of foreign trade organizations, then the payments and crediting of joint enterprises are accomplished in the procedure stipulated for such payments with Soviet suppliers export commodities and services and with Soviet import commodity customers. In so doing, settlements of joint enterprises involving Soviet organizations and firms of capitalist and developing countries with the suppliers and purchasers in the Soviet Union are made through foreign trade organizations of the Ministry of Foreign Economic Relations or the sectorial ministries at world market prices. In independent access to the foreign market, joint enterprises make payments for export commodities and services and also for import transactions (in accordance with contract terms) in the form of documented letters of credit, bank transfers, collection of payments, and other forms used in international banking practice.

Joint enterprises with the participation of capitalist and developing countries' firms can also gain access to the foreign market through the market network of the foreign participants of joint enterprises.

All currency earnings received by a joint enterprise, in the absence of foreign currency indebtedness to a bank, go into a separate currency account for keeping financial assets and for making international payments; the bank adds and pays interest on surplus funds in the currency accounts at rates established by the bank, taking into account the world money market rates, since the bank may use the average surplus of the client's spare currency assets in its active transactions.

Thus, the Foreign Economic Bank and its institutions provide comprehensive credit and settlement support of the activities of foreign trade associations of the Ministry of Foreign Economic Relations and other ministries and departments located in Moscow and in the capitals of the union republics, and also the participants of the foreign economic complex at the location of the Foreign Economic Bank institutions. Credit and settlement servicing of the newly created cost-accounting foreign trade associations under the Councils of Ministers of the union republics is also concentrated in the USSR Foreign Economic Bank system.

In conclusion, we would like to note that successful solution of the problems facing the foreign economic complex in conditions of perestroika, in addition to developing and introducing new forms of foreign economic activities and their credit and settlement support, will largely depend on the ability at all levels to carry out skillfully the tasks facing us.

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Discussion of Currency Mechanism in Foreign Economic Relations

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[Article by Prof Yu. A. Konstantinov: "The Currency-Financial Mechanism of USSR Foreign Economic Ties"]

[Text] The radical restructuring of the system for control of USSR foreign economic ties made it necessary to significantly update the currency mechanism. The principal directions for its development and improvement with respect to the modern stage were formulated in a number of party-government documents: decrees of the USSR Central Committee and the USSR Council of Ministers of 19 August 1986, "On Measures for Improving Control of Foreign Economic Ties" and "On Measures for Improving Control of Economic and Scientific-Technical Cooperation with the CEMA Countries"; the decrees of the CPSU Central Committee and the USSR Council of Ministers of 17 September 1987, "On Additional Measures for Improving Foreign Economic Activity Under the Conditions of Management."¹

The measures envisioned in the aforementioned documents pertain essentially to all areas of USSR foreign economic activity: organizations for control of them, their planning, and economic incentives, including complete cost accounting and currency self-recoupment. As a result of the implementation of these and other measures, a currency mechanism for foreign economic ties which is called new is now functioning in the USSR. Its innovation is manifested above all in the fact that it:

—is based on extensive independence of the ministries, departments, production associations, and enterprises in disposing of the currency belonging to them and complete responsibility for fulfillment of planning assignments for export, currency revenue, and relations with other economic agencies;

—envision a principle of currency self-recoupment of ministries, departments, associations, and enterprises, which means a gradual rejection of centrally allotted allocations for import purchases for the needs of technical reequipment and reconstruction;

—orients the economy toward a gradual (as economic prerequisites are created) changeover to currency self-financing—conducting production and commercial activity completely with their own and borrowed currency;

—demands that currency sources from export-import activity of associations and enterprises be reflected in the financial results of their economic work as a whole and, as a result of this, in the amount of the corresponding monetary funds, including social ones;

—strengthens planned regulation of currency circulation: now all ministries and departments participating in foreign economic activity of the state are given assignments for exporting products and for currency revenues. These assignments which are given to the enterprises by branch management agencies coordinate the economic interests of the producers of export products and foreign trade organizations into a unified whole.

Concepts related to the functioning of the new currency mechanism for USSR foreign economic ties such as currency self-recoupment and currency self-financing obviously require clarification.

Currency self-recoupment is the initial form of cost accounting that encompasses the foreign economic activity of the enterprise. As the seller of exported goods it makes full reimbursement towards expenditures through its own currency revenues. Moreover the concept of currency self-recoupment is closely linked to the concept of financial self-recoupment. This is brought about by the fact that the enterprise that sells its goods on the foreign market functions within the country within the framework of the Soviet economy, in which the only legal means of payment is the USSR ruble and, moreover, the state has a currency monopoly. Thus there objectively arises a need to exchange currency earnings for Soviet rubles in the USSR Vneshekonombank. Without this the enterprise cannot economically carry out the reproduction process on the basis of financial self-recoupment. For the exporter enterprise in its own country must settle accounts with suppliers of raw materials, fuel, and processed materials, and pay for the labor of workers and employees in rubles. Rubles are also used to create an amortization fund, to pay off bank credit and to fulfill commitments to the state budget.

Therefore when delivering goods for export the enterprise receives revenue in Soviet rubles in exchange for the currency that has been earned. And this exchange is not an administratively forced action on the part of the state conditioned only by its currency monopoly, as people sometimes think. The exchange of the currency form of sale of value of the exported commodity for the financial one in this case signifies the only economic possibility of renewing the process of production on the territory of the state where all monetary accounts and payments are made only in rubles and the economic

activity itself is accomplished on the basis of self-recoupment and self-financing according to the USSR Law on the State Enterprise (Association).

Currency self-financing is the highest form of cost accounting, on the basis of which the enterprise carries out its foreign economic activity. This form presupposes that the labor collective receives a sum of currency revenue which is sufficient not only to renew the process of export production on the territory of the USSR but also to create its own currency fund so as to purchase imported goods on the foreign market for reconstruction and technical reequipment of production and subsequently also for new construction, enlisting bank credit for this if necessary.

As a form of cost accounting currency self-financing presupposes material interest of the collective in earning currency from exporting goods. To this end, not all the currency revenue is turned over to the state. Part of it remains at the disposal of the enterprise—in many cases a significant part. It is deposited in the currency fund of the enterprise. And when settling accounts within the framework of direct ties, border trade, in the activity of joint enterprises, all currency remains with the Soviet exporter.

Currency self-financing cannot always be achieved immediately. This depends on many factors, including the enterprise's preparedness to effectively carry out foreign activity which, in turn, is conditioned by the degree of competitiveness of the products that are produced and the ability to take into account the conditions of the world market and the scope and depth of the reform of the intraeconomic mechanism in one stage or another. Therefore true currency self-financing at the present time is preceded by a transitional period during which the enterprise provides for currency self-financing and the satisfaction of import needs related to expansion of export production, including as a result of reconstruction, and new construction is carried out with currency funds that are allotted from state allocations.

From what has been said it follows that currency funds will play an important role in the currency mechanism of the USSR.

Currency Funds

It is written in the USSR Law on the State Enterprise (Association) (Article 19): "The foreign economic activity of the enterprise is an important constituent part of all the enterprise's work. It is carried out, as a rule, on the basis of currency self-recoupment and self-financing and its result is an organic part of the results of the economic activity of the enterprise and directly influences the formation of economic incentive funds and currency

deductions." Currency deductions which form the currency fund are formed for increasing the economic motivation and responsibility and expanding the independence of the enterprise in carrying out export and import operations.

The currency fund is a part of the currency revenues. This is the part that can be increased only by increasing exports. The fund is formed according to stable long-term normatives from earnings from exporting prepared products and services. It also includes all currency revenue from cooperative deliveries and sale of licenses. The normatives are established in a differentiated way: basically according to the branch indicator. Their differentiation is conditioned by differences in the conditions for production, the nature of the products that are produced, and the specific features of the foreign markets where they are sold.

The currency fund is the main source of financing foreign trade operations of the enterprises and satisfying their import needs, primarily those related to reconstruction and technical reequipment. Currency funds for new construction are now allotted from centralized allocations. Currency funds formed in transfer rubles have a broader sphere of application. In addition to the needs for technical reequipment and reconstruction of production, scientific research, experimental design and other work, these funds can also be used for other purposes. In particular, it is permitted to spend them to pay for mutual deliveries of cooperative products, items, instruments, fittings for instruments, processed materials, and individual machines and equipment. Currency funds in transfer rubles can also be used to pay for medical equipment and cultural-domestic and other goods towards the social needs of the labor collectives.

Thus the purpose of currency funds is to enable the enterprises to work under the conditions of currency self-financing. To do this in 1987, when the new system for control of foreign economic ties went into effect, for example, the machine-building ministries were permitted to deduct 30-50 percent of the currency revenues into the currency funds of the enterprises. This basically enables them to use their own currency funds to financing current production expenditures and, in a number of cases, larger measures as well. At the same time centrally established currency limits were reduced for these ministries. The overall sum of currency funds created in a number of ministries, departments and enterprises during 1988 exceed 3 billion rubles.

The currency funds formed in the USSR under the new system of control of foreign economic ties correspond to the overall principles of cost-accounting activity of Soviet enterprises that envision, in particular, their extensive initiative. Currency funds typically provide for independence and efficiency in their utilization by enterprises. The money of the funds is not subject to removal or restriction in utilization on the part of higher agencies; it can be accumulated for expenditure in subsequent

years. Moreover, the enterprises are guaranteed prompt utilization of funds. Their orders are completely included in the import plan. Import purchases on orders are given priority.

In addition to increasing the material incentives of the enterprises to develop foreign economic ties, with the new system of control they have greater material responsibility for the results of their activity. The labor collective bears currency responsibility for the performance of planned assignments for exporting goods and for contractual commitments. This is expressed in the fact that all of the damage arising by the fault of the enterprise is compensated for from its own currency fund; when it does not contain enough money it comes from the centralized currency fund of the ministry or department.

The ministries, departments and councils of ministers of the union republic have been permitted to centralize up to 10 percent of the overall currency funds of the associations, enterprises and organizations. From the centralized currency reserve created in this way the enterprises are given assistance in cases of temporary deterioration of the indicators of their work. This same reserve is used to finance measures for the development of production at enterprises that are not directly involved in foreign trade activity.

The decree of the CPSU Central Committee and the USSR Council of Ministers, "On Additional Measures for Improving Foreign Economic Activity Under the New Management Conditions" has created conditions for enterprises which increase their socialist enterprisiness through more efficient utilization of currency funds. It has been recognized as possible for the enterprises and also the ministries and departments to combine their currency funds and to transfer them to other ministries, departments, and banks under mutually advantageous conditions, including payment of interest and they are also allowed to invest abroad (with the agreement of the ministries and departments).

Before this, essentially, currency funds meant the right to purchase currency in the USSR of Vneshekonombank, for it was exchanged by exporter enterprises for Soviet rubles. The source of the ruble equivalent is the fund for the development of production, science and technology envisioned in the financial plan of the enterprise. In this case the currency fund is taken into account in the USSR Vneshekonombank in a nonbalance currency account for which interest is not paid.

It is different now. The enterprise has a right to "embody" part of its currency fund directly in the currency in which it is interested: freely convertible or transfer rubles. To this end the enterprise has the opportunity to open up in the USSR Vneshekonombank a current balance account, having deducted rubles to cover

it from its own current account beforehand. This means that the right to use the corresponding foreign currency in the nonbalance currency account is decreased by the corresponding amount.

As a rule, the Vneshekonombank opens up one currency account in freely convertible currency for the owner of the currency account. The currency is determined by the client. And it can be converted into other currencies without restrictions at the existing rate of international exchange on the currency market on the day the operation is completed. At the request of the client the USSR Vneshekonombank can open up an account in rubles with free conversion instead of one of the freely convertible currencies. This latter is done without restrictions. The Vneshekonombank deducts and pays interest on currency accounts of enterprises in the currencies in which they have income from their distribution in the international currency market.

The enterprise's interest in earning currency from exports is now increased also by the fact that it can place part of it in the USSR Vneshekonombank in the form of a deposit of from 1 to 9 or 12 months, depending on the currency of the deposit. The possibility of investing currency abroad that has been granted to the enterprises contributes to the development of socialist enterprisiness. On instruction from the owner of the currency account the Vneshekonombank conducts operations for purchasing shares in order to participate in the capital of joint enterprises with Soviet participation and also purchasing stocks for rendering financial assistance to the aforementioned joint enterprises.

Practical steps have been taken so that the enterprises owning currency funds in transfer rubles can create real prerequisites for their practical utilization: the purchase of the necessary goods. This is the goal of the decree of the USSR Council of Ministers, "On Organizing Wholesale Trade in Products for Production and Technical Purposes for Transfer Rubles."²

This kind of trade will be organized on the territory of the USSR beginning in 1989. Concretely trade transactions have been entrusted to the all-union cost-accounting foreign trade association Vneshpromtekhnobmen of the USSR Gosnab. It performs intermediary functions: it lists the resources of products for production and technical purposes intended for wholesale trade and provides for their sale to the consumers.

Resources are formed mainly from two sources: products that come in through import from the CEMA countries and certain products produced domestically.

The enterprises and associations have been given the right to sell through wholesale trade products for production and technical purposes manufactured in excess of the state order and commitments under economic agreements. Moreover, resources of products for production

and technical purposes allotted for export are used for wholesale trade, but not those sold on the foreign market and returned to the national economy.

Material resources are provided in the quantity necessary for complete commodity coverage of those funds in transfer rubles at the disposal of the enterprises, associations, ministries, departments, and councils of ministers of the union republics.

The Vneshpromtekhnobmen Association sells products for production and technical purposes to the consumers at contractual prices in transfer rubles. The policy for their establishment in application is determined by the USSR Gosnab with the agreement of the USSR State Committee for Prices and the USSR Ministry of Finance. These prices are listed in Soviet rubles according to the policy applied when importing goods. In addition, the Vneshpromtekhnobmen Association receives from the consumers a markup over the cost of these products in contractual prices. The amount of the markup is determined by the USSR State Committee for Prices.

The USSR Vneshekonombank is called upon to play an important role in the organization of wholesale trade in products for production and technical purposes in transfer rubles. One of its tasks is to give the Vneshpromtekhnobmen Association information about the availability of currency in transfer rubles in the accounts of enterprises, associations, organizations, ministries and departments, and councils of ministers of the union republics. Another is to organize the corresponding account. The bank transfers from the nonbalance account of the purchaser on his instructions the sum of currency funds in transfer rubles designated in the agreement between the buyer and the Vneshpromtekhnobmen Association. The bank informs both participants in the transaction about this. The specific policy for accounts and credit is established by the USSR Vneshekonombank and the USSR Promstroybank with the agreement of the Gosnab and the USSR Ministry of Finance.

The sale under the policy of wholesale trade for transfer rubles of medical equipment, and cultural-domestic, sports and other goods is carried out by the USSR Ministry of Public Health, USSR Ministry of Trade, and the USSR State Committee for Physical Culture and Sports.

As experience shows, the creation of currency funds is an important condition for changing enterprises that export products over to complete currency self-recoupment. But this is not a one-time act, but a process. Under the current five-year plan it is not possible for all branches of the national economy to fully apply currency self-financing as the highest degree of cost accounting. This is brought about mainly by the fact that they began to create currency funds in the middle of the five-year plan when funds in foreign currency were distributed among branches of the national economy and, as a rule, had

special purposes. The following also affect the scope of the utilization of the principle of currency self-financing: the inadequate quality and ability to compete of Soviet prepared products on the foreign market, which reduces the amounts of currency revenues; the unstable conditions of this market, particularly the unfavorable change in foreign trade prices, especially for the basic raw material goods and energy bearers.

In this situation under the 12th Five-Year Plan large facilities that use imported equipment are being constructed with centrally allotted currency funds. They also serve as a source for purchasing certain kinds of raw and processed materials the need for which is not fully satisfied by domestic industry. Therefore during the period of transition to complete currency cost accounting currency funds act as a basic element of self-financing and self-recoupment of Soviet enterprises that participate in foreign economic ties.

Differentiated Currency Coefficients

The foreign economic activity of an enterprise that is based on the principles of self-financing and currency self-recoupment presupposes its reflection in the income, expenditures and profit of the labor collective. But up until 1987 the foreign economic activity had a weak influence on cost-accounting indicators of the enterprises. This was brought about by the fact that the production unit as a participant in foreign economic ties kept its accounts on the basis of domestic wholesale prices, which differed significantly from foreign trade prices and were essentially not related to them.

In the USSR domestic prices for exported goods were established at the level of wholesale prices for industry with increments for export features of the products. These prices, although they basically made up for the enterprises's expenditures on production, did not depend on foreign trade prices. Therefore the enterprises were not interested in improving the structure of exports in order to increase effectiveness or to economically evaluate the expediency of imports.

The widespread principle for the formation of domestic prices for imported goods applied for many years in the Soviet Union was the principle of providing for the same price level for these and analogous goods produced domestically. The difference between the currency payments and the domestic price was either the financial income of the state budget or the budget subsidy for the foreign trade organization.

Now the enterprises when exporting and importing prepared products calculate on the basis of foreign trade prices. Thus they are placed in the same economic conditions in which they directly experience the results of their entry into foreign markets and therefore are interested in the most effective implementation of export-import operations. This is achieved through the

application of currency coefficients that are differentiated for the various goods and kinds of currency. Hence their name—differentiated (DVK).

With the help of the DVK foreign trade prices expressed in foreign currency are translated into the national currency of the USSR—Soviet rubles. In principle this recalculation can be carried out also with the help of the official currency rate. But its purpose is considerably broader than providing for foreign trade ties. Therefore the official rate has been calculated on the basis of comparing domestic and foreign trade prices for a wide range of goods and services. Moreover with the practice of price setting that has been in effect in the USSR since the middle of the 1980s domestic prices differ significantly from foreign trade prices in terms of their level and proportions. As a result of this translating the foreign trade price of one good or another into Soviet rubles using the official rate can show a negative financial result of the transaction—a loss. This happens because foreign and domestic prices for the given good are established without mutual coordination or mutual influence.

Hence also it became necessary to establish a kind of adjustment to the official rate for rubles. By virtue of their economic essence differentiated currency coefficients developed by the USSR Gosplan and the USSR Ministry of Finance provide for this kind of adjustment. As distinct from the official rate for rubles the DVK have been calculated in such a way that they reflect, in the first place, the relationship between foreign prices and domestic expenditures (the wholesale price taking into account markup for export) for the corresponding goods and commodity groups and, in the second place, exert a stimulating influence on the growth and qualitative improvement of the production of the corresponding goods and regulate imports. About 3,000 coefficients have been introduced, which range from 0.3 to 6.0. They are differentiated for various commodities and various currencies. Such a broad differentiation of currency coefficients was conditioned by their functions of stimulating exports and regulating imports.

Now in order to coordinate the overall results of economic activity of the production unit with the results of the foreign economic operations, the foreign trade price of the commodity expressed in currency rubles at the official rate of the USSR Gosbank is multiplied by the corresponding coefficient. Thus one determines the sum of earnings in Soviet rubles which reimburses the producer for his expenditures on the manufacture of the given product for export and provides for the necessary profitability. Thus the efforts of the enterprise to reduce outlays, improve product quality, and update the assortment are remunerated, essentially, with a higher foreign trade price. Moreover the DVK's can not only increase but also reduce earnings depending on the designation of their function for stimulating exports and regulating

imports taking into account the kind of currency received and spent. As we can see, the nature of the DVK's is dual: to increase and to decrease.

Assigning DVK's for imports consists in impeding the importing of less effective, costly products and encouraging the importing of goods with high consumer qualities.

The application of DVK's since 1987 is considered to be a transitional, but important period. The commodity coefficients make it possible to adapt Soviet production enterprises to the new system of control of foreign economic ties and economically force them to reject ineffective products lists and raise the technical level and improve the quality of exported products.

At the same time, as experience has shown, the DVK's are not always capable of providing for a direct connection between the results of the foreign economic activity of production associations and enterprises, on the one hand, and the overall results of their work, on the other. Essential differences in the levels of domestic wholesale prices even for products of the same kind and the lack of correspondence between the proportions of foreign and domestic prices have caused not only the large number of DVK's, but also the fact that to a significant degree they are averaged. The application of these coefficients leads to a situation where the enterprises either receive additional unearned profit or unsubstantiated losses. Moreover, in a number of cases with the help of DVK's the enterprises are compensated essentially for individual expenditures on the manufacture of products which exceed the socially necessary ones. In this sense DVK's express the cost principle of price setting and to a certain degree perform a subsidizing function. And in places where this function is not performed, the enterprises sustain undeserved losses.

Thus according to data for 1987 the Moscow Krasnyy Proletariy Plant lost 3,700 rubles on each industrial robot delivered to Bulgaria. The Krasnyy Ekskavator Association when counting up the currency revenues for exporting excavators in Soviet rubles lost 1.6 million rubles during the year. Under these conditions the USSR Gosplan and Ministry of Finance with the participation of branch ministries and departments have adjusted currency coefficients on the spot. Sometimes they have established coefficients even for specific brands of machines and equipment.

Experience has shown the economic inexpediency of applying DVK's to a number of commodity groups, above fuel-energy and food commodities and mineral raw material. It has turned out to be practically impossible to use DVK's when exporting and importing consumer goods because of their broad range of products. As a result of this the level of expenditures on the manufacture even of products of the same kind has covered a significant range.

The existing system of differentiated currency coefficients is not such that it cannot be changed. It is as though DVK's calculated on the basis of ratios of domestic wholesale and foreign trade prices for commodities "bring up" import-export prices to the level of domestic wholesale prices. Thus we see reproduced the system of price setting for exports and imports that was previously in effect in the USSR, which was based on the cost principle of price formation.

Taking into account the fact that the existing system with numerous DVK's is not the best variant for providing for changing the foreign economic complex over to currency self-financing, people express the opinion that it is expedient to apply an economically substantiated currency rate. This presupposes simultaneous utilization of the normative of subsidies or deductions. As a first step it is suggested that we apply branch currency rates (coefficients) augmented by normatives for financial subsidies and deductions. It is thought that this measure, which means essentially a changeover from hidden subsidies to overt subsidies, will increase the role of the branch ministry in developing foreign economic activity and will relieve the enterprises of the need to strictly attach their financial results to each concrete commodity or commodity group and will reduce the range of less effective export items.

The decree of the CPSU Central Committee and the USSR Council of Ministers, "On Additional Measures for Improving Foreign Economic Activity Under the New Management Conditions," instructs the USSR State Committee for Prices, the Gosplan and the USSR Ministry of Finance when preparing and implementing the radical reform of the price-setting system to provide for economically substantiated approximation of the price ratios for the various groups and kinds of products to the world prices. It is noted that this will create conditions for making progressive changes in the structure of foreign trade and deepening international specialization and cooperation of production. In the future it will make it possible to change over to the utilization of currency rates for these purposes.

In the basic provisions for the radical restructuring of economic management approved by the July (1987) Plenum of the CPSU Central Committee the task is set to increase the influence of the finance-credit mechanism on increasing the effectiveness and expanding foreign economic ties of the USSR. It says in the document: "The financial and credit mechanism is called upon to create economic conditions for improving the structure of exports and imports, expanding production cooperation on the basis of currency self-recoupment and self-financing, and conducting an active customs policy. Special attention should be devoted to increasing the buying power of the ruble and gradually providing for its convertibility, mainly within the framework of the CEMA."³

As the Soviet ruble assumes more and more developed forms of currency convertibility there can appear conditions for gradually refraining from differentiation of coefficients with respect to the kinds of currency as well. Then the convertibility of the ruble itself would economically motivate the enterprises, ministries and departments to compare the conditions for production for various kinds of products and enter into world division of labor, taking into account the cost-accounting interests both of the producers and of the consumers of the goods for foreign economic exchange. As a result prerequisites would simultaneously arise for the application of the official rate for the ruble.

Credit Levers

Credit is a constituent part of the new currency mechanism for foreign economic ties of the USSR. It is an important condition for carrying out foreign trade activity of the enterprise according to principles of currency self-recoupment and self-financing without resorting to the utilization of centralized currency and financial resources of the state.

The role of the USSR Vneshekonombank has increased appreciably in the new system of control of foreign economic ties and functioning of the currency-financial mechanism. At the present time new forms are being introduced for interrelations between this bank and foreign trade associations and enterprises. An important innovation is the conclusion by Soviet participants in foreign economic ties of a credit agreement with the USSR Vneshekonombank which determines the policy for granting, utilizing, and paying back loans.

Standard conditions have been established for these agreements. According to them, in order to carry out operations related to exports and imports, Soviet participants in trade transactions have the right to obtain short-term loans in rubles. They are granted: for import and export goods in warehouse, in ports, en route to the USSR, under payment documents issued for foreign buyers or Soviet clients, and also for other purposes and needs related to importing and exporting goods, rendering services and settling accounts for foreign trade transactions.

The conditions for granting credit are directed toward more actively contributing toward strengthening the export base for production and increasing the proportion of machines, equipment, and products with a high degree of processing in exports. In order to strengthen the influence of credit on the development of exports and utilize imports efficiently, the differentiated policy for granting credit has been extended to all foreign trade organizations of the ministries, departments and enterprise. It takes into account the results of their economic and financial activity, their financial-commercial conditions for contracts, and the national economic effect achieved through this.

In order to stimulate deliveries for exports the USSR Vneshekonombank has been permitted to grant credit in foreign currency to associations, enterprises and organizations. It can be obtained for creating and developing export productions for a period of up to 10 years to be paid back from the currency revenues from the exporting of products; in order to provide for the current activity for up to 2 years; and for future revenues taking into account the course of conclusion of contracts for exports. And credit in foreign currency is issued under conditions analogous to the world conditions for the corresponding currencies and time periods.

Currency Convertibility

The currency-financial mechanism now in effect in the USSR is directed primarily toward effectively contributing to the development of progressive new forms of economic interaction between the Soviet Union and other socialist countries. These include the implementation of the Comprehensive Program for Scientific and Technical Progress of the CEMA Countries Up to the Year 2000 (KP NTP), direct ties between production and scientific-technical enterprises and organizations, and the creation of joint enterprises and international associations.

The new instrument of the USSR currency and financial mechanism is called upon to contribute actively to this: convertibility of the Soviet ruble into national currencies of other interested CEMA countries and the collective currency—the transfer ruble. The need for this convertibility was pointed out at the 43rd (extraordinary) CEMA session in October 1987. Speaking of the meeting, Chairman of the USSR Council of Ministers N. I. Ryzhkov emphasized that the Soviet Union supports the agreement of the majority of socialist countries concerning the introduction of mutually convertible national currencies and the transfer ruble for direct production ties, joint economic activity, and scientific and technical cooperation.

While implementing the decisions of the CEM' session the USSR conducted the corresponding negotiations with interested CEMA partners. It has already included an intergovernmental agreement with Czechoslovakia. The two countries agreed that accounts and payments in their national currencies would be carried out by those organizations that are participants in the agreement concerning direct ties or are fulfilling the agreement for the creation of Soviet-Czechoslovakian joint enterprises and international associations and organizations. And there are quite a few of them. Thus at the beginning of 1988 more than 230 Soviet and Czechoslovakian enterprises signed agreements for establishing direct production and cooperative ties.

Accounts for deliveries of goods and services rendered within the framework of direct ties are kept in the national currency of the country whose organization delivers the goods and provides the services. In other

words, we are speaking about having the exporting of goods be paid for in the currency of the exporter and imported goods—in the currency of the importer. For example, for batching items delivered to a Czechoslovakian plant the Soviet enterprise can receive rubles for payment but for equipment it purchases it must pay in Czechoslovakian krone. This makes it possible for the economic organizations to keep settle their accounts with their partners efficiently and directly and more easily evaluate the effectiveness and advantageousness of the corresponding commercial operations. Moreover the manager has been given the right to select for himself the form of accounts with his partners in the CEMA—national currencies or transferred rubles. This way it is not necessary for the enterprises to balance deliveries and purchases. The balance will be achieved at the international level. Nonetheless the nature of the convertibility that has now introduced among involved CEMA countries is still bilateral. Because of this it still cannot serve for multilateral economic ties within the framework of the CEMA. A rate has been established for reciprocal payments for deliveries under direct ties: one Soviet ruble for 10.4 Czechoslovakian krone.

Payments in national currencies do not replace the system of multilateral accounts in transfer rubles. On the contrary, they augment it. The majority of accounts for reciprocal commodity turnover at the present time continue to be kept on the basis of long-term intergovernmental agreements and annual protocols concerning commodity turnover and transfer rubles through the MVES. Here it is important to emphasize that accounts in convertible national currencies of the CEMA countries kept in the aforementioned spheres of production and scientific-technical cooperation do not affect non-trade turnover. It is served under a special policy as before.

This means that the circulation of national currencies of the CEMA countries in the sphere of their production and scientific-technical ties should not "leak" into the circulation of those same currencies that serve the system of nontrade payments related to maintaining embassies, consulates, business trips for specialists, tourism, that is, those that presuppose using cash. Accounts in convertible national currencies involving the production and scientific-technical cooperation of the CEMA countries are kept only under a noncash policy. This circumstance is brought about by the desire not to allow clogging of channels of monetary circulation within the state with their own national currency which is used to satisfy the personal needs of the citizens for goods and services through the retail trade network and public catering as well as service enterprises. The volumes of production of goods for personal consumption and services to the population existing at the present time in the USSR and other CEMA countries do not make it possible to fully open up the domestic market to foreign holders of national currency of the given country regardless of the specific source from which they obtained it: nontrade or trade circulation. Because of the effect of

factors pertaining to the quantity and quality of goods and services which one socialist state or another can offer to foreign citizens, the convertibility of its currency in the sphere of nontrade circulation is still limited and, consequently, strictly controlled.

As socialist economic integration develops, currency relations and price setting improve, and the system of control of planned economics develops in the direction of further increasing the role of the basic unit (the enterprise) conditions will appear for expansion of the sphere of application of convertibility of the Soviet ruble and other national currencies within the framework of the CEMA, and on a multilateral basis.

In the Soviet Union we have in mind in the future (with the creation of the necessary material, economic and other prerequisites) to change over to convertibility and freely converted capitalist currencies. This would contribute to more active participation of the USSR in the process of world division of labor, which corresponds to the new economic and political thinking and also reflects the real fact that the USSR is a large industrial power of the world.

The area of application of this convertibility of the Soviet ruble has already been laid out and this means that there also arises a practical need for it. The Soviet Union intends, in particular, to expand the objects of joint cooperation with Western companies, which is promoted by the changes in the system of Soviet economic planning. Therefore the USSR, naturally, would like to have its own converted currency. But to do this it will be necessary to take a number of preliminary steps. They include increasing the commodity supplies, strengthening the monetary system even more, improving the program of the price reform so as to bring them in line with expenditures, and, finally, to reach a point where Soviet industrial enterprises are capable of competing with foreign companies. The USSR proceeds from the idea that the convertible ruble would contribute actively to expansion of the foreign economic activity of the Soviet state. But it will apparently not be possible to begin to carry out this measure in practice until the end of the 1990s.

At the present time, as we know, the USSR is conducting a deep economic reform and carrying out a radical restructuring of economic management. One must assume that in keeping with this there will also be further improvement of the economic mechanism for foreign economic ties of the Soviet Union, including the currency mechanism. This is especially important under conditions in which the new forms and methods of management of the Soviet economy dictate a persistent need to essentially unite the domestic and foreign economic spheres of activity of the Soviet state, its branch economic agencies, and its basic unit—the enterprise (association).

Footnotes

1. EKONOMICHESKAYA GAZETA, 1987, No 41, pp 18-19.

2. Ibid., 1988, No 9, p 18.

3. Materials of the Plenum of the CPSU Central Committee of 25-26 June 1987, Moscow, Politizdat, 1987, pp 100-101.

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Currency Problems Impede Foreign Economic Affairs

18250002 Moscow SOTSIALISTICHESKAYA INDUSTRIYA in Russian 9 Sep 88 p 3

[Article by A. Sarkisyants, senior scientific associate at the All-Union Research Institute for Foreign Economic Relations: "The Hard Currency [Valyuta] Ruble"; first paragraph is unattributed source introduction]

[Text] What is impeding the restructuring of our foreign economic activities? Why, in particular, is the process of our enterprises' adaptation in foreign markets going so slowly? First of all, because hard currency [valyuta] problems have still not been solved. The article published below gives an idea of their complexity and once again emphasizes the need to solve them.

The restructuring we have begun of foreign economic activities presupposes the creation of effective hard currency incentives for enterprises to enter the external market. This includes hard currency funds and the hard currency exchange rate and coefficients. And finally, hard currency loans. So far, unfortunately, all these instruments are having an insufficient impact on the improvement of the structure of our foreign trade turnover and, especially, on the development of exports. Moreover, in some branches the fulfillment of plan assignments for exports has even deteriorated. Thus, whereas in 1986 ministries in the machine-building complex fulfilled the export plan as expressed in freely convertible hard currency by 78 percent, in 1987 they fulfilled it by only 62 percent.

Enterprises' hard currency funds are supposed to play the principal role in providing incentives for exporting. In principle, they are formed on the basis of stable, long-term normative rates for deductions from earnings from the export of finished products and services. For example, 30-50 percent of hard currency earnings is deducted and deposited in the funds of enterprises of the machine-building ministries. That is perfectly adequate for them to purchase the latest technologies abroad. But it is not so simple for enterprises to use this money. The problem is that the enterprises can withdraw their earned hard currency from account in the USSR Foreign

Economic Bank only in the year after the beginning of operations. Moreover, this hard currency is credited to accounts (or more simply, purchased by the state from an enterprise) after being converted according to differentiated hard currency coefficients (DVC's) established for export goods. Yet imported goods are paid for on the basis of different, "import" DVC's. In other words, it is as though an enterprise repurchases its own hard currency from the state! Unquestionably, it is a rather confused system. And the confusion stems from the fact that we do not yet have any real hard currency exchange rate for the ruble.

Therefore, the question of a radical restructuring of the system for setting prices for exported and imported products is on the agenda.

The large number of coefficients (more than 3,000), unfortunately, has not made it possible to avoid unprofitability. For example, for the Krasnyy Ekskavator Association the conversion of hard currency to rubles on the basis of DVC's resulted in losses of 1.6 million rubles a year. Yet it was assumed that industry would earn up to an additional 40 billion rubles, or 1.5 times as much as at present.

Specially designated coefficients (with an indication of the exporter) have been established and continue to be established on an ongoing basis for individual goods. But despite the large number of DVC's, they still encompass the lesser part of the list of products in the USSR's foreign trade.

Thus, at the present time there are two parallel systems for evaluating the export-import performance of enterprises—according to wholesale prices with markups, and according to the DVC's.

Right now more than 100 enterprises and associations have already been given the right to independently enter the external market. Under conditions in which the decentralization of foreign economic activities will be expanded, the USSR Foreign Economic Bank will find itself unable through its divisions to service the export-import operations of a growing number of enterprises in a timely fashion. It is becoming clear that monopoly by a single department is intolerable in the area of hard currency relations, as it is in foreign trade. Whereas state monopoly previously defended our country's producers and consumers from the unfavorable influences of the external market, in time the forms of the implementation of this function ceased to meet the requirements of the development of the country's productive forces and the active entry into the world market.

At present the role of specialized banks that serve as middlemen is rising in connection with the beginning of studies in our country concerning such an important area of foreign economic activity as marketing. The effectiveness of exports depends to a great extent on how successfully a market is chosen for the sale of output,

how rapidly an enterprise receives hard currency earnings and the size of those earnings, and which foreign bank (it may also be specialized in a given industry) provides the money to its importer for the purchase of output from the Soviet enterprise. Therefore, the specialized bank that serves an industry should act as a consultant and middleman between the Soviet exporting enterprise and its foreign partner.

One of the fundamental tools for managing foreign economic activity is hard currency loans. In a situation in which the rights to directly enter the external market are being transferred to enterprises, these loans are, to all intents and purposes, becoming the sole source of attracting funds for the production of competitive products and the subsequent export of them. Nonetheless, the practice of providing hard currency loans has not yet become widespread. And this is related primarily to the problems of determining the sources of their repayment.

Under the conditions of existing normative rates and the need to use part of hard currency funds for current needs, the repayment of loans exclusively from hard currency funds will inevitably result in exceeding the eight-year period that has been established as a maximum for the repayment of loans for a number of projects. A lengthy repayment period causes, in turn, a proportional increase in the amount of interest paid on a loan.

Under existing conditions, the provision of hard currency loans to enterprises is becoming, to all intents and purposes, a form of extending foreign loans to them. The refinancing of internal loans may take place through the attraction in international markets of short-term deposits (from one month to a year) or of finance loans (from two to eight years).

These problems can be solved only if the repayment of loans for the creation and development of export production facilities is carried out through the use of hard currency earnings independently of normative deductions to enterprises' hard currency funds. The granting to enterprises of the right to dispose of their own hard currency as soon as they receive it from a foreign purchaser would permit them to use this money more flexibly and regularize their relations with the banks. And this, in turn, would result in bringing the terms of internal lending and external borrowing closer together.

The idea of establishing an internal hard currency market in the USSR merits attention. At present perfectly competitive products often are not exported but allocated on a priority basis to internal consumers, since they are in acutely short supply. Many highly profitable enterprises do not have their own hard currency, which prevents them from importing new technology to update their production. The practice of reciprocal lending among enterprises has not yet become widespread. One way out of this situation might be to introduce the

practice of providing loans to enterprises on a competitive basis. In that case enterprises that could use a hard currency loan to substantially increase their export capabilities and thus put themselves in a position to repay loans on time could become borrowers.

The role of specialized industry banks would consist both in direct participation in lending (also on a competitive basis) and in the provision to creditor enterprises of information on the financial and economic condition of borrower enterprises. The creation of an internal hard currency market at which the free sale of foreign hard currency among enterprises under the supervision of the USSR State Bank would also take place would also give all enterprises the opportunity to import the necessary technology through the reallocation of hard currency among them. In the final analysis, this would result in increasing deliveries both for export and for the internal market.

To the extent that the hard currency market developed, internal and world prices would become increasingly similar, and it would become possible to abandon the use of DVC's. Under the influence of demand and supply, a real hard currency exchange rate would be established. Thus, the internal hard currency market would be a kind of preliminary stage in the introduction of the internal convertibility of the ruble.

Our country already has a certain experience in issuing a convertible national currency—the gold chervonets (1922-1926). Its exchange rate was supported by the USSR State Bank within the country in the fund departments of the commodity exchanges, as well as on the free hard currency market and a number of foreign exchanges. Under the conditions of convertibility within the country, rather liberal procedures for the exchange of hard currency were established.

On the whole, the relatively free form of ruble convertibility that was used during the NEP period had a positive impact on foreign economic activity, the expansion of the country's export and import capabilities, and direct ties with the foreign market. It also provided a considerable savings in foreign hard currency.

It is clear that the restructuring of our foreign economic relations will make little progress until hard currency problems are solved. Let us note that we are not proposing to put the cart before the horse. We are talking only about hitching the horse to the cart in a competent fashion.

Initial Steps Toward Convertible Ruble Discussed
*18120010 Moscow MOSCOW NEWS in English
No 38, 25 Sep-2 Oct 88 p 7*

[Articles by Svetlana Kuznetsova, Cand. Sc. (Economics), International Institute of Economic Problems of the World Socialist System, and Boris Fyodorov, Cand. Sc. (Economics), Institute of World Economics and International Relations, USSR Academy of Sciences. First two paragraphs are introduction by MOSCOW NEWS.]

[Text] One of the tasks of the radical economic reform is to make the rouble convertible stage by stage. Without this it will be more difficult for the country to take part in the international division of labour, or to make use of such forms of collaboration as production cooperation, the setting up of joint enterprises and the development of direct relations with foreign partners.

But what does it mean to make the rouble convertible stage by stage? Wouldn't this mean simply putting off indefinitely the first all-important measures? What should the "first stage" be? Where does our road to the convertible rouble start?

A Currency Market Is Needed

The realities of our life seem to be telling us that it would be better to postpone the question of making the Soviet rouble convertible until better times. At least, this is what those who identify themselves with the currency monopoly of the state declare. We have no wholesale trade, all resources are "rationed", the price system is deformed, it is impossible to judge objectively what it would be profitable for us to make and what to buy abroad, and, finally, our competitiveness is low.

The list of "objective obstacles" could be continued, but so what? The idea of making the rouble as freely convertible as, say, the dollar, is utopian today. But this doesn't mean that the problems of convertibility are excluded from the agenda in general. We are already encountering the need for well-thought-out, concrete steps, without which development of our foreign economic activities would be impossible.

We already have examples of convertibility: in the tourist trade—limited sums in roubles are being exchanged for other currencies, and trade with some countries is done on the basis of clearing agreements (which involves partial exchange of roubles into other currencies).

Today, the situation is getting quite complicated. The convertibility of the rouble into Western currencies is starting to be introduced at joint enterprises now being set up. Specific forms of convertibility are appearing

and, as direct relations develop between our enterprises and their partners from other socialist countries, the Soviet rouble also gets converted into the currencies of CMEA countries.

Each form of settlement sets up its own economic conditions—prices, coefficients, exchange rates and rules for convertibility. But these necessary developments also bring chaos. Essentially, we are already faced today with the problem of how to set up a unified basis, which links economically all these varied forms of external convertibility of the rouble?

We need a real economic mechanism to connect the conditions of our economic life with those of the world market. The setting up of an internal currency market in our country could help us to deal with this task. It could develop simultaneously with the wholesale trade market as the independence of our enterprises widens, including independence in foreign economic relations.

Our exporters are already beginning to get some of their takings in foreign currency. But, to be honest, they are still not free to use the currency they earn as they choose. Yet a start has been made and, I suppose, the process will be brought to its end—the proclaimed independence will become a reality. Why should they not be given the right to sell their currency for internal roubles to other enterprises (state and cooperative) wishing to buy something abroad? The buying and selling of currency could be done through special exchanges or banks. This way the rouble would have a contractual exchange rate in relation to other currencies. The currencies of all our foreign partners should be used in this market so that they may objectively compare the effectiveness of cooperation with each one.

This contractual exchange rate of the rouble, together with its official exchange rate, will become a flexible, economically justified criterion, allowing us to determine what and for whom it would be profitable to export, import or produce in order to replace imported goods.

It is also important that all our enterprises, owners of foreign currency, be given the right to import goods as they see fit, that is, to operate on the world market, a right only a few dozen enterprises enjoy, as yet.

Our foreign partners should also be given the opportunity to buy currency on our internal currency market, especially since this is a time when foreign firms are setting up joint enterprises in the USSR.

All these would become real steps along the road to solving the problem of the external convertibility of the rouble. If we develop wholesale trade and the currency market, we would be able not only to put our foreign

economic settlements in order, but also to link them up with our internal money circulation. In such conditions a new monetary unit—the convertible rouble—could be issued.

Let's not simplify this complex issue—and also, let's not allow ourselves to be hindered by all sorts of fears of "cataclysms". Some socialist countries already have a certain know-how in this respect. The main thing is to understand that the question of the convertibility of the rouble has already been posed by the needs of perestroika. If we keep the rouble as it is, we'll not only fail to cope with certain problems, we'll exacerbate them.

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What Course to Choose?

More items have been published over the last year about the exchange rate of the Soviet rouble, its convertibility and other currency problems that in the previous ten years or so. But, as yet, people regard the whole issue as a bright goal for the future, or else try to produce something ideal with the aid of arithmetic.

We need a substantiated exchange rate for the rouble today, now and not in the 21st century. It is necessary as a criterion of effectiveness of foreign economic relations and as an important tool in the state's currency policy. By changing the exchange rate we'll be able to stimulate or regulate the export-import activities of enterprises.

Today, the official exchange rate of the rouble does not, in fact, reflect anything or regulate anything. Each sector, subsector and even enterprise is relegated to individual "currency cells" with the aid of the so-called differentiated currency coefficients (about 10,000 substitute currency exchange rates), through which the prices of foreign-trade deals are transferred into roubles. In real life, nearly all of them are dissatisfied with the coefficients given them. The single criterion of foreign economic cooperation has been lost.

Nearly everybody now realizes that all these administratively calculated and assigned "coefficients" represent a blind alley. It would be better to abolish these currency coefficients and establish a single more substantiated exchange rate for the rouble.

It would be a profound illusion to try and calculate it on the basis of our present or future prices. Many factors, in addition to the dubious nature of these prices, influence the currency exchange rate. In particular, it should take into account our real competitiveness, poor production standards, bureaucratism and delays in deliveries.

We need an exchange rate so that things will work. Further, world experience shows that keeping it artificially high (as we do) only restricts exports and, therefore, economic development. So, today, only a substantially lowered single exchange rate for the rouble is really workable, stimulating exports and limiting imports.

We have reliable, though indirect, criteria to determine a real exchange rate: firstly, those established by experienced people in the former Beryozka shops; secondly, the black market rates; thirdly, the rouble rates used by some Western banks when dealing with Soviet roubles. We'd have to correct the black market rate (too low) but still lower the rouble exchange rate 2-3 times. We can develop an ultimate figure that will secure the profitability of our export of ready-made goods at about 80 percent (as is done, for example, in a number of socialist states). Later on it would be necessary to change the rouble exchange rate in our favour, as, let's say, Hungary and China are doing.

A more substantiated exchange rate for the rouble is the first step towards making it convertible. Another step could be the setting up of an internal currency market, so that enterprises could freely exchange their currency and so that the state could sell them currency according to a flexible rate (there would be state currency auctions instead of the present ineffectual allocations from the budget). The exchange rate at such a market could serve also as a reference for the exchange rate of the rouble established by the USSR State Bank.

If we're to speak seriously about a convertible rouble, then we can't evade the questions of a realistic exchange rate, effective use of currency and freedom of currency operations for enterprises, and, in the long run, for people.

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9274

Current Difficulties in Joint Venture Program 18250012 Moscow *IZVESTIYA* in Russian 5 Oct 88 p 5

[Interview with L. G. Kostov, general manager of the "Leksika" joint venture; and V. F. Kravchenko, general manager of the All-Union Association "Soveksportkniga," by *IZVESTIYA* correspondent B. Ivanov: "Leksika" Comes to Their Aid...and Asks for Help: More on Difficulties in Developing Joint Ventures"; first paragraph is introductory]

[Text] I recall that when my friend was getting ready for an assignment abroad about 10 years ago, he had to learn French. He could not make up his mind how best to do this: to study with a tutor, to take intensive training courses or to study by himself, using a textbook with tape recordings. Little did we know at that time that a foreign

language may be learned—and very efficiently—with the aid of personal computers. Little has changed in the years that have passed, by the way—language courses using computers are still very rare in our country. And here comes "Leksika" to our aid.

It is a Soviet-Syrian joint venture which will specialize in turning out modern language training systems utilizing computers and video, including for the study of Russian as a foreign language. The founders of the joint venture were the All-Union Association "Soveksportkniga" and the Syrian "Kuli" firm. "Leksika" is the first enterprise of its type in our country. In addition to producing computerized training systems, it will also be involved in printing and publishing. In particular, one of the joint venture's high-priority objectives will be to send Soviet scientific, political and artistic literature, as well as textbooks and dictionaries, to Syria and other countries in the Arab East. Previously the output of such materials was small because of the shortage of skilled Arabist-translators and the lack of typesetting in the Arabic language.

The idea of establishing "Leksika" first came into being in September last year during the international book fair in Moscow, in which the "Kuli" firm took part. The three-volume "Medical Atlas" in Arabic is now being prepared for publication. It is planned to publish the first volume next January. A new version of the "Russian-Arabic Dictionary" is being readied at the same time. In addition, the development of different computer programs for language training is under way at full speed.

L. G. Kostov, general manager of "Leksika," tells an *IZVESTIYA* correspondent how the Soviet-Syrian joint venture is working and describes its plans and problems.

"The main objective of our activity is to turn out language programs for computers," Leonid Georgievich noted, "and in the initial stage of our venture's existence the emphasis has been on developing computer programs for the study of Russian as a foreign language. Why? They have been studying foreign languages with computers in the West for a long time, while we have been content to use the traditional textbooks with records or cassettes. We want to make up for this deficiency for this reason. And we will begin with the Arabic-speaking countries."

[Ivanov] A few words about the programs being prepared. What are they like?

[Kostov] The specialists in "Leksika" can create a number of programs: from the alphabet with animation and a large number of instructional games to the most complex vocabulary aids for linguists, researchers in the fields of language and culture, and literary translators. The training programs can be utilized everywhere—in schools and institutions, in courses, and for independent study. They also may be used as a supplement to a textbook, which unquestionably will make the learning

process more interesting and entertaining. This will turn it into a game. And I assure you, much that is useful will be remembered from such games. Experiments conducted in the West have shown that what previously took months and years to remember takes only a few days when it is perceived in a visual image.

[Ivanov] Has "Leksika" begun collaborating with other enterprises?

[Koftov] Yes, the "Russkiy Yazyk" Publishing House, the Ukrainian Institute of Cybernetics, and the well-known American company Hewlett-Packard are among our partners. And the Finnish firm ("Yukhteystyuaya Kiryapayna") has already placed an order with us for Russian language training programs. So a start has been made, as you see.

[Ivanov] What is impeding your work, and does the venture have any problems?

[Koftov] There is a problem, and a very serious one. As ridiculous as it seems, we still do not have normal work accommodations. The "Russkiy Yazyk" Publishing House has given "Leksika" shelter for the present in three small rooms. But they are so small that we cannot even set up our equipment, which we spent thousands of dollars to acquire, in the proper way. We have appealed to various authorities, but an answer has not been received yet...

I visited the old building on Pushkin Street where "Leksika" was forced to locate. There is no denying that computers and copiers are standing close to each other; it is nearly impossible to squeeze through between them. We could talk about how safety procedures and special operating instructions can be followed here with such machines!

And how can we not understand Suleyman Kuli, the assistant general manager of "Leksika" on the Syrian side, when he complained that he simply does not know where to put the second batch of equipment—modern computers and duplicating and printing equipment—which is arriving soon. "The only thing that is preventing our enterprise from operating at full speed is the lack of space," he said.

And here is the opinion of one of the founders of "Leksika," V. F. Kravchenko, the general manager of "Sovetskportkniga":

"Joint ventures are new and promising. They need to be provided with everything necessary to the extent possible—premises, skilled personnel, and material resources. As a founding firm, we are trying to do everything in our power, but we are helpless as far as the premises are concerned. And after all, a decision has been made to provide "Leksika" with 900 square meters of space. We would be ready to take even half of this space now..."

Only one thing can be added to what has been said. It has often happened with us, unfortunately, that a ship of good and needed beginnings is lost after breaking up on "the rocks of everyday life." "Leksika" has just been launched, but it already has to slow down its engines. Here is the way it turns out: so that "Leksika" can help the many who want to learn foreign languages, it has to be given help today itself.

8936

Interview on Antidumping Sanctions Against USSR

18120001 Moscow MOSCOW NEWS in English
No 37, 18-25 Sep 88 p 7

[Interview with Alexey Shagurin, secretary of the All-Union Market Research Institute, date and place not given. First three paragraphs are introduction by MOSCOW NEWS.]

[Text] Early in August the Commission of the European Communities (CEC) announced its decision to take "antidumping sanctions" against Soviet and Bulgarian foreign trade organizations, allegedly selling copper vitriol on EEC markets at low prices. According to Brussels, the CEC has imposed temporary antidumping duties on this commodity and started investigation.

It is too early to guess how the investigations will end—they will go on for several months. But, no matter, the above is a glaring example of one of the problems which exist on world markets and which the USSR has also to deal with.

MN [MOSCOW NEWS] interviewed Alexey Shagurin, Learned Secretary of the All-Union Market Research Institute.

[MN] Today, many Western countries resort rather widely to antidumping measures. Why?

[Shagurin] Dumping is understood as selling commodities at a lower price. But what is meant is not the price at which the importer firm sells its commodity to clients on its internal market, but the price at which the importer buys goods from the exporter. It is clear that if this is lower, then the importer firm can deliver the goods to its customers at a profit, and in great amounts, which is damaging for the local producers of this commodity. And it is they who complain about dumping.

On the surface, this looks like normal self-defence against "dishonest trade" on the part of producers. However, there are other motifs. The worsening of general economic conditions in capitalist countries, accompanied by long-term structural crises, has sharpened competition on the international arena and this has led to the strengthening of protectionist trends, including antidumping measures. UNCTAD data reveals their

scope: in the mid-80s, antidumping measures (investigations) affected 37 billion dollars worth of world imports (excluding fuel), and antidumping duties were imposed on more than 50 per cent of this volume of trade. In this period, 570 court proceedings were either started or resumed. The USA, Australia, Canada, the EEC member-states and some other countries are the main initiators of antidumping charges while both industrialized capitalist countries, including Japan, and developing and socialist countries are the respondents.

It is a rather serious matter for the exporter, and unpleasant, when he is charged with dumping. If, from the beginning of investigations, the CEC imposes temporary antidumping duties on this or that commodity for four-six months, and it turns out to be a straightforward case of dumping, then the additional duties are imposed on a constant basis for five years. But, even if it wasn't a case of "dishonest trade", the very fact that proceedings were started against an exporter (the CEC announced this in its publications) is detrimental to his reputation and compatibility. Essentially, antidumping measures are used today to bring pressure to bear on exporters and remove competitors from the market.

[MN] What is the situation with commodities from socialist countries? In what measure are they subjected to the antidumping measures on the markets of the EEC countries, their main trade partners?

[Shagurin] Socialist states are, to some extent, treated separately, despite the fact that, formally, antidumping legislation of the EEC countries is the same for all countries. Firstly, the EEC still believes in the stereotype—socialist countries are, *a priori*, guilty, systematically selling their goods at lower prices on Western markets in order to get hard currency. Secondly, special criteria are used for socialist countries to determine whether there has been any dumping. Under the pretext of being unable to work out internal prices in these countries, the EEC compares them with prices on similar goods in some third country with a "market economy", or uses other methods. Essentially, the CEC can freely choose the basis for comparing prices and, from all possible prices, as a rule, prefers those which best suit the interests of West European producers. These and other methods sometimes make it possible to "determine" dumping even if the exporter delivers his goods at world prices.

[MN] Can you prove such discrimination?

[Shagurin] The share of socialist countries in the total imports of the EEC is 9 per cent, and the EEC started 130 proceedings against socialist countries between 1980 and 1986. In the same period, 84 proceedings were started against industrialized capitalist countries responsible for 60 per cent of EEC imports.

As for the USSR, the data is as follows: between 1978-1988 the EEC started or resumed 40 proceedings against the Soviet Union for its exports of fiber-board, electric motors, mechanical watches, pianos, nickel, aluminum, glass and some other goods. In 23 cases dumping wasn't proved, or the sides adopted an agreement on prices and, in one case, an agreement on volume (a compromise decision). Two proceedings are still going on. In 15 cases the CEC imposed protective measures.

[MN] Doesn't this mean that Soviet exporters are not always blameless?

[Shagurin] Not exactly. In the past, we simply didn't respond, for one reason or another, to investigations by the EEC (the defendant has the right to a lawyer, or to send experts and so forth, although all that costs a lot). So, the ultimate decisions were sometimes made in the absence of the Soviet side. Now we realize that direct talks are useful. In fact, we have definitely achieved favourable results at such talks.

I must say, however, that Soviet exporters should be more careful when signing contracts. This is especially true of the enterprises and organizations that have only recently received the right to trade independently with foreign countries. They lack know-how and adequate knowledge of market conditions and are sometimes too ready to agree to the conditions of the importers, who, naturally, are interested in lower prices. All this leads to charges of dumping.

In real life, Soviet foreign trade organizations operate according to the market conditions for this or that commodity and do not resort to selling at lower prices. We are for honest trade, and stable and favourable conditions for its development. But, whether we like it or not, certain stereotype images of Soviet exporters remain. The struggle in Western markets is toughening and we should not forget that a rival can always appear who'll use all means to undermine the position of his opponent.

9274

Details about Moscow Business School
18250039 Moscow LITERATURNAYA GAZETA
in Russian No 42, 14 Oct 88 p 2

[Article by V. Orlova: "To Become a Reliable Partner"]

[Text] It is difficult to overestimate the importance of a reliable business partnership in a commercial transaction. All the more so if you are talking about international commerce. Unfortunately, to date Soviet businessmen are by no means always distinguished by these qualities. For them to acquire these qualities, a Higher Business School has been established under the USSR Council of Ministers Academy of the National Economy.

This academic institution is not free; it operates under cost accounting. A monthly course of studies costs 1140 rubles. Who are the students? Leaders of industry, and of the highest rank. Perestroyka is promoting educated, knowledgeable people to leadership positions. They are also needed in the area of foreign economic relations. The revival and decentralization of these relations has engendered new (and extremely so for us) phenomena and concepts. For example, the joint venture and marketing. Marketing is the ability to produce what sells and not to trade just what is produced. The school's first students (39 of them) are properly faced with understanding these new forms of cooperation.

Of course, the training will not stop at just two programs in the future. The client, i.e., the organization which sends its representative to the school, will itself be able to determine the topic and length of the course of study it needs. Cost accounting also favors this. The one who pays the piper, as they say, calls the tune.

Who are the instructors? Well, first, the academy's better teachers, secondly, leading academics and specialists in the field of foreign economic relations; and thirdly, and

what is of special interest in our opinion, representatives of the largest universities and business schools in the West—England, Italy, the U.S., and the FRG.

Lecture courses will be combined with business games and practical exercises in economic planning and foreign trade bodies and enterprises already in the foreign market. Each of the school's students will have an opportunity to learn how to work on modern personal computers. Trainee periods at academic centers and firms in socialist and capitalist countries will be the final stage in the training.

Our report on the school would be quite incomplete if it failed to mention the fact that foreign students will also be studying there, but their goals are different. They have to comprehend the special features of the Soviet socio-economic mechanism and the ways and methods of its restructuring. Thus, the starting up of business contacts—the basis of a reliable partnership—will surely now begin in the Higher Business School under the Academy of the National Economy.

UD/331

Potential for Communist, Social Democrat Cooperation

18070202 Moscow RABOCHIY KLASS 1
SOVREMENNY MIR
in Russian No 3, May-Jun 88 pp 15-26

[Article by Mark Afraimovich Neymark, doctor of historical sciences, chief of Section for Studying Problems of International Social Democracy at the USSR Academy of Sciences International Workers' Movement Institute: "Communists and Social Democrats: Potential for Cooperation"]

[Text] The situation in the 1980s, marked by the preservation of crises in many capitalist countries' economies, by the transition of neo-conservatives to the offensive, and especially by the growth of the nuclear danger, urgently requires the improvement of previous forms and the elaboration of new forms of communist cooperation with the whole spectrum of leftist forces, searches for non-stereotypical formulas for comradely relations, and the revelation of such common unitary political denominators which would correspond to the specifics of today's complicated situation.

In his speech to the informal Meeting of 178 Parties and Movements held in Moscow in 1987, noting the fundamental need for dialogue and unity of the forces of peace and progress, M.S. Gorbachev stated: "We invite to cooperation and a joint search not only the fraternal parties, the Communists, but the Socialists and Social Democrats, the Laborites and the representatives of other orientations of political thought and action, all, to whom the gains of the human spirit are precious and who want to preserve and use them for future generations. This work is vitally important for understanding the new situation, when civilization's renewal has become interwoven with the problem of mankind's survival."

The important changes taking place in many socialist countries, especially perestroika in the USSR, also give the current situation its fundamental novelty. These changes promote the elaboration of strategically sound, constructive solutions to the essential tasks of communist and social democratic cooperation within the framework of all Western leftist political forces involved in searching for positions which would answer the peoples' desires for peace and prosperity. The dialectical interrelationship between perestroika and the socio-political struggle in the capitalist countries and between the dynamics of the development of the working-class movement and the new possibilities of joint and parallel actions generating its course is becoming increasingly obvious.

The processes of renewing the Soviet society have caused a change in the frame of mind of a wide spectrum of the Western world's progressive public, who are placing great hopes on them. "Glasnost and perestroika have significantly changed and improved the image of the Soviet Union which existed in the West," stated J.

Mayer, a leading member of the West German Greens Party.(1, 5 Nov 1987) The communists are convinced that perestroika, having a powerful mobilizing effect on the workers of capitalist countries, will play a crucial role in the history of socialism. The social democrats are also interested in perestroika, since, in answering the needs of world socio-political development and the logic of detente and European cooperation, it directly or indirectly strengthens their positions.

With all the diversity of appraisals and opinions, the majority of social democrats agree with the fact that qualitative changes in the Soviet Union also open new horizons in the sphere of economic cooperation among states. It is noteworthy that many social democratic theorists and politicians perceive an internal logic in the coincidence of the timing of the radical reforms and large-scale USSR foreign policy initiatives, unprecedented in their significance. The perception of the Soviet state's policies in the social democratic environment has noticeably improved as a result of the signing of the INF Treaty between the USSR and USA in December 1987, which marked the beginning of ridding mankind of the burden of the arms race and the threat of war.

Not hiding dissatisfaction with the state of affairs in their parties in conditions of confrontation with the "neo-conservative wave" which has dragged on, the social democrats are showing great interest in the new social experience being accumulated during the course of perestroika and in those of its features reflecting the large-scale and uniqueness of the processes occurring in the USSR reviving the Leninist character of the new order. The increasing interest in perestroika enters into the social democratic environment through a growing, accompanying a slow, by no means linear break from the most self-compromised anti-communist assertions about certain organic flaws, not only in the domestic but also foreign policy of the USSR, from their a priori absolutization of those shortcomings in Soviet society which were thoroughly criticized at the 27th CPSU Congress. In a number of parties of the Socialist International, a constructive interpretation of the prospects of developing socialism, above all glasnost and democracy, can be traced, even though a new, conceptually whole perception of them has still not been elaborated: for too long the social democrats, having heard about the repression in the preceding periods of Stalinist outrages and afterwards the stagnation and normative thinking, have imagined the social life in the USSR as a schematized, one-dimensional dark reality.

Despite the divergence of social democrats' assessments and opinions—those who definitely support perestroika and those who show restraint, not to mention those (and their numbers are small) who see it as their goal to find irreversible flaws in Soviet society—there can be no doubt that perestroika will have quite a serious effect on them. "The Moscow Spring forces us to reconsider some

of our traditional ideas," it is emphasized in the theses prepared by K. Van Mirt, chairman of the Belgian Socialist Party (Flemish), and P. Koolsat, one of its theorists.(2)

Speaking in Moscow at a grand meeting dedicated to the 70th anniversary of the Great October Revolution, K. Sorsa, vice chairman of the Socialist International, stated that this international organization is in the process of critically rethinking the contemporary world and itself, and is renewing its fundamental program. In his words, it must open the doors to the outside world and become a program of dialogue and cooperation. "...I feel that your process of democratization, glasnost and perestroika is going in the same direction. Consequently, one can see a promising future for dialogue in the international working-class movement." (1, 5 November 1987)

Indeed, there are considerable grounds for such prognostic confidence. At the same time, much will depend on what practical steps are taken in the changed situation of social democracy, to what degree they meet the interests of the working masses, the goals of the anti-monopolistic struggle and the solution of global problems common to all mankind.

But, for the present, it is advisable to "differentiate" two levels of the problem: the potential for cooperation between communists and social democrats and the real state of their relations, burdened by the weight of past which has not been overcome. In other words, it is a matter of dialectics of the possible and the actual, the desirable and the real.

This article examines not specific problems and the state of relations between communists and social democrats in one or another country, but the prerequisites, new possibilities and prospects for their cooperation corresponding to the realities of the nuclear space age. In doing so, it is important to take into account the varied nature and specifics of the interrelationships of the CPSU and other ruling communist parties with the social democratic parties, on the one hand, and also of the communist parties of the non-socialist part of the world with the national parties of "democratic socialism," on the other.

Social democracy is an integral element of modern social development. Thanks to its solid political weight and position, it can influence the forces on its right and even on its left in the party political spectrum with are not influenced by communists.

For communists who cannot alone provide the solution to problems facing the working-class movement, social democracy, acting on behalf of a significant portion of the workers, is the closest of possible allies. Communists and social democrats do much differently with different end results for the working class, for the working sections

of the population of capitalist countries. As was emphasized in the Political Report of the CPSU Central Committee to the 27th Party Congress, "... the ideological disagreements between the communists and social democrats are deep, and the experience and achievements are unequal and of unequal value. However, an unbiased acquaintance with each others' positions and views is undoubtedly useful both for communists and for social democrats. It is primarily useful for intensifying the struggle for peace and international security." (3, p 74)

The very course of modern historical development makes extremely urgent the civilizing function being carried out by social democracy and the contribution which it is making to the development of social progress and to mankind's struggle for survival. The humanitarian content of its initial value orientations is taking on a new sound. And it is no accident that the communists and social democrats are adhering to largely converging approaches to solving universal, global problems.

The struggle for communist and social democratic cooperation is a complex and diverse dialectical process in which, depending on the specific historical conditions, centripetal, allied-political and centrifugal, ideologically opposing trends coexist, interweave or conflict.

Since the time that the logic of class struggle kindled revolutionary and reformist currents, the objective conditions of their development have changed significantly. Taking into account the changes taking place in the world, the communists have made and continue to make—sometimes with delay—corrections to their program objectives. Louis Van Geit, chairman of the Communist Party of Belgium, wrote with alarm and concern that "communists, primarily in Western European countries, have reacted in a significantly uncoordinated manner and, at times, in discord" to the processes associated with the deepening of the crisis of capitalism, with the scientific and technical and social and cultural changes, and with the frontal assault of conservative circles on the rights of workers and the democratic achievements of the working-class movement. (4, 1988, No 2, pp 14-15)

The Social Democratic Party platform has also undergone appreciable changes. It would be illegitimate simply to evaluate critically all the results of its ideological and theoretical evolution from the time of final victory of the reformist orientation in it right up to the present. The programs of the social democratic parties contain quite a few provisions which can satisfy the most demanding needs of workers oriented to socialism. It is another matter that these provisions remain on paper; but they exist and meet that latent aspiration toward socialist ideals, which always lives in the consciousness of working people.

Today, being at a sort of turning point in its own history, social democracy is searching for new methods and solutions for socio-economic and political problems. Its past traditional approaches to the major problems of

foreign and domestic policy have come into such a contradiction with practical reality that their preservation would entail serious political consequences for individual parties and for the movement as a whole. True, the effectiveness of the attempts to renew its tactical-strategic policy is now turning out to be quite relative: the state-monopoly restructuring which has begun, the replacement of the model of economic development, is so unusual.

The evolution of the domestic political positions of both communists and social democrats, experiencing in its own way a crisis of adaptation to the new conditions, is taking place against a background of those changes in capitalism which are making a deep mark on their assessments and concepts, in a number of cases eroding the former clarity of the alternative watershed between the latter.

In pondering the contradictions between communists and social democrats, the previously mentioned K. Sorsa stated: "Dialogue between the two main ideological trends of the international working-class movement has not always been easy. Actually, he who studies the history of the working-class movement cannot avoid the question: Were all of these sharp debates really necessary?" (1, 5 Nov 1987)

The CPSU and other fraternal parties are doing much so that communist and social democrat cooperation will become an important factor of social and political life. Such a unitary position is adhered to by communist parties operating under various conditions, including in those countries where the correlation of forces in the working-class movement favors the communists. Thus, the Italian Communist Party (PCI) is striving to overcome those difficulties and contradictions which characterize the current relations between it and the Italian Socialist Party (PSI) and to create real prerequisites for their cooperation in the interests of the working masses. In this regard, A. Natta, general secretary of the PCI, called for avoiding two mistakes: "...the first—to consider the splits with the PSI which occurred earlier to be irreversible in nature and, consequently, to conduct a frontal attack against it, accompanied by sharp and abusive attacks which remind us of those we frequently heard directed at us from the PSI. The second—to strive to find a solution to existing problems not on a unitary basis but in isolation." (5, p 42)

Communists are operating in the same spirit in countries where a reverse correlation of forces has historically taken shape in the working-class movement. Thus, the Swiss Party of Labor emphasizes that it "does not intend to retire into isolation under the pretext of preserving ideological purity and at the same time allow itself to be enticed into the sphere of hopeless reformist practice." (6) G. Mees, leader of the German Communist Party,

precisely and unambiguously expressed his party's position: "The Social Democratic Party of Germany (SPD) will have communists as critical fellow-travelers and not enemies." (7)

In the current critical situation, it is important, perhaps as never before, to evaluate the present from the position of the future. And this means that with a really emancipated consciousness they are not planning and not implementing the new in the system of old or aging before one's very eyes coordinates. Historical experience cautions against an orientation on a strategy of alliances without active participation in them of social democrats representing all of the echelons of the party, both the "bottom parts" and the "top parts." However, in a number of communist parties in the capitalist countries the shortage of new approaches to social democracy has not yet been made up.

Within the framework of the concept of an integral and interrelated world which creatively discloses the dialectics of class and universal interests and goals, the former one-sided notion of the value orientations of social democracy and the ethical potential of a number of its political objectives can hardly remain unchanged. The constructive and critical rethinking of even some of them through the prism of such a concept will make it possible to find additional points of contact between communists and social democrats.

A most important condition for successful cooperation between communists and social democrats is the observance of the principle of equal partnership within the framework of alliances and blocs being entered into at all levels, local, regional and national. The communist and workers parties have expressed the readiness "to make their contribution to equal cooperation with all democratic forces, especially the socialist and social democratic parties, in the struggle for peace, democracy and social progress." (8)

Of course, equitable mutual relations of communists and social democrats are possible only with the guaranteed preservation of the originality and independence of the dialogue participants. This assumes the inclusion of the most important and urgent (from the standpoint not only of class interests, but also universal interests) demands in joint programs and manifestos, the mutual "habit" of which should and can be carried out without changing the ideological and political sovereignty of the parties and organizations. The 28th Congress of the Danish Communist Party (April 1987) emphasized that the new problems which the country's working-class movement is encountering can be resolved only jointly with other forces, which suggests another approach. "We communists link such issues with the struggle for socialism, not demanding this of others. But they also, in turn, do not have a right to demand that we renounce our convictions and adherence to the socialist prospect of development. Of course, in the interests of joint actions, we are called upon to explain better and more intelligibly

that the socialist world outlook impels us to come out consistently in favor of the common goals of the workers." (4, 1987, No 12, p 11).

The natural aspiration of the communist and socialist democratic parties to preserve autonomy and originality in their allied relations is only one aspect of the principle of equality. Another aspect is program and political clarity and definiteness. V.I. Lenin emphasized that total clarity and definiteness in relations between parties, orientations and nuances are an absolutely necessary condition of any successful temporary agreement between them. "Clarity and definiteness are necessary in each practical step and result in definiteness and the absence of vacillation in a real, practical cause." (9, Vol 9, p 281)

The ideological and political differences and points of contact between revolutionary and reformist parties are expressed in complex ties and mediations. Pointing out that the preservation of ideological differences between two trends does not have to be an obstacle to cooperation of the parties and organizations representing them, R. Urbani, chairman of the Communist Party of Luxembourg, emphasized: "Naturally, clarity is necessary in this matter in regard to how much we are united and in what and to what degree we differ from one another. The communists, let us say, will never allow themselves to be drawn into this exclusive circle being created by the reformist policy of class partnership. This is our fundamental position, and we will not retreat from it. At the same time, we think that many spheres of social and political activities not related to supporting, much less strengthening, capitalism are open for cooperation." (4, 1980, No 1, p 28)

In France, during practical elaboration and discussion of the joint program of left-wing forces, the leadership of the French Communist Party (PCF) distinctly compared not only the degree of coincidence, resemblance or proximity of their positions with objectives of the French Socialist Party (PSF), but also the depth of the divergences and differences between them. "Of course, since 1972 we have not forgotten about the true essence of the Socialist Party, which is a social democratic trend in our country, about its dread that the working class and popular masses will be set in motion, about the vacillation which it is experiencing, confronting the class struggle against capital, and about its inclination to compromise with the latter and to class cooperation." (10)

Here, of course, one cannot help but take into account the changes in the political strategy of the PCF, the 26th Congress (December 1987) of which recognized as erroneous the concept of alliance at the summit based on a joint program. The documents of the congress explained that this strategy clipped the wings of the popular movement, having subordinated its development to an election calendar, pushed to the background the fundamental question of the substance of reforms necessary for a way out of the crisis, and "obliterated the differences between the PCF and PSF." Was this not the very same

instance which the famous French writer and communist Jean-Richard Blok astutely noted: alliances for tactical considerations collapse faster in victory than in defeat. (11) The PCF made appropriate corrections in its unitary position, which is now oriented on the establishment of a "new majority" in France by strengthening ties primarily with rank and file socialists.

Characterizing the position of the Italian communists on this question, A. Natta, general secretary of the PCI, stated that the party is openly announcing its goals, intentions and proposals to all of society "We support left-wing democratic alliances which are based on a program, concepts and value orientations precisely emphasized by their participants... Achievement of unity is possible only during the course of open and serious discussions with the workers and representatives of other strata around specific issues, proposals and demands... We are not afraid of either rivalry, competition, or struggle." (5, pp 41, 43)

Experience shows that the common nature of programs when forming an alliance of communists and social democrats is achieved primarily by three methods: either by mutual concessions, agreement on specific positions; or (which occurs considerably less often) by the inclusion of individual points and sections of the program of either political partner in the common platform; or simply by one party supporting certain components of the other's program.

Even in the case of the last variant (seemingly, the politically most "thankless" from the strictly party standpoint), communists, placing the interests of the working class and of all working strata above all, have more than once showed the example of truly creative relations to the program aspect of their cooperation with social democracy.

The Seventh Communist International [Comintern] Congress had already called on communists to use individual demands from the platforms of the social democratic parties themselves and the promises of the socialist ministers at elections for deploying a unified front in the struggle against the offensive of capital, against fascism and the threat of war. G. Dimitrov's speech at this congress is a vivid example of the unitary thinking in the most complicated conditions of class struggle. Concerning the Belgian situation, in particular, having criticized that portion of the Socialist De Man's "Plan of Labor" which exclusively served the interests of the upper bourgeoisie, G. Dimitrov emphasized at the same time that the communists would support individual demands of the social democratic program which favored the formation of a united proletarian front. (12, p 60)

More than half a century has passed since that time. The communists soberly assess the path covered and the historical experience of their relations with the social democrats. In the opinion of Louis Van Geit, chairman of the Communist Party of Belgium (PCB), the main reason for a

number of mistakes made by the communists during the various periods was disregarding the lessons and achievements of the Seventh Comintern Congress. "We believe: its significance is not diminished in any way by the inconsistency demonstrated later in carrying out the decisions adopted." (4, 1988, No 2, p 14)

Reality is such that the social reserves of the workers parties are far from exhausted and that it is not mandatory for them to strive to absorb each other's mass base. The social expanse for expanding their influence (without inflicting mutual damage and with preserving loyal relations) remains quite significant. Thus, according to the data of sociological studies of 1984, 60 percent of those who identify themselves with the working class in England did not identify themselves with the laborites, and more than one third of them preferred the conservatives (among skilled workers, 38 percent identified with the laborites; among non-skilled, one half). (13)

But loyal relations in unions and associations with social democracy does not at all mean a communist renunciation of the struggle for the masses. On the contrary, this struggle always was and remains the main task of the communist parties. In daily work they are guided by the Leninist direction on the need to approach dialectically the concept of the struggle for the masses. Communists do not run ahead; soberly assessing the real situation, they strive in daily practice to follow the Leninist logic of political actions in the struggle for the masses and to achieve as a minimum their "benevolent neutrality," sympathy, and later even their direct support of the "vanguard" and active participation in the struggle against capitalism. (9, Vol 4, pp 77-78) The communist parties do not set a goal of absorbing the social democratic mass base and do not link their strategic calculations to its transition to positions of scientific socialism. At the same time, they formulate the task of "achieving a shift of the social democrats as far to the left as possible, both ideologically and on the issues of daily policy." L. Verner, chairman of the Left Party—Communists of Sweden, called for this in particular. (14)

Of course, the competitive struggle for expanding the mass base between communists and social democrats, operating virtually in one political expanse, cannot but affect their ideas of their place in the alliance and in that priority role which they intend to play in it.

For social democracy, the position of the PSF has now become perhaps the most typical in this respect. "We are the party which has been called upon to play a major role in the unification of the leftist forces," declared J. Popren, national secretary of the PSF, categorically stating as if "in all the countries of Western Europe, with the exception of Italy, the parties of 'democratic socialism' fulfill that role." Therefore, he concluded, "we will also fulfill it." (15) Speaking at the PSF Congress in Toulouse in October 1985, party leader L. Jospin, under the pretense that "there is no longer equality in the leftist

sector of the party-political expanse," set the goal of "uniting all leftist forces around the PSF by the end of this century." (16) A resolution adopted at the congress was oriented on just that: "We do not know if the union of leftist forces with the PSF can be revived, and if so, in what forms... We want to attract all leftist forces to the struggle who are disoriented by the conduct of the PCF leadership. We must take an open, offensive unitary position." (16)

In 1935, refuting the assertions of the opponents of unity of action at the Seventh Congress of the Communist International that the communists want to direct and dictate everything, G. Dimitrov said: "No, we do not direct anything and do not dictate anything. We only make our proposals, regarding which we are convinced that their implementation meets the interests of the working people. This is not only a right but also an obligation of all who act on behalf of the workers. Are you afraid of 'dictatorship' of the communists? Let us jointly place all of the proposals before the workers, yours and ours, and jointly discuss them together with all of the workers, and select those proposals which are the most useful for the cause of the working class." (12, pp 34-35)

In the current situation, when the unity of actions of left-wing forces is becoming a vital necessity for the working class, exposing the groundlessness of the "dictatorial" aspirations being attributed to the communists is one of the high-priority tasks of the ideological and political struggle. "When we are unjustly reproached as if our constant statements for unity of action and the creation of alliances of democratic forces are the expression of open or disguised claims on leadership," wrote G. Mees, "we respond to this with a call to analyze our demands and our position without prejudice. Then it will not be difficult to establish that we are not setting egoistical party goals, but defending the interests which are characteristic of the overwhelming majority of our people." (17)

At the same time, without making any allowances or indulgences for themselves, communists are critically rethinking those mistakes and costs which seemed indispensable in elaborating a unitary policy. Commenting on the well-known expression that "communists are people of a special mentality and are cut from a special material," behind which was the recognition of the high moral qualities of the revolutionaries and heroes who selflessly struggled for the cause of liberating the workers, A. Vassalo, general secretary of the Communist Party of Malta, candidly said that they also have not managed to avoid such interpretations of it which were equivalent to a claim of some exclusiveness linked with possessing "a monopoly on truth." "Naturally, neither an individual party nor the communist movement as a whole can claim such a 'monopoly'." (4, 1987, No 12, p 7)

Elaborating and "fixing" allied relations between communists and social democrats assumes (regardless of whether we are talking about tactical bloc formation or a long-term alliance) they will achieve a well-known compromise. The communists proceed from the fact that at the basis of the compromise regulating the possibility of their contractual relations with the social democrats lies the definite unity of the various demands and interests of the working class and the closeness or resemblance of the individual party and political positions they and others are expressing and defending. For example, from the standpoint of the German Communist Party (DKP), the compromises must be directed toward achieving at least a partial success in the struggle against the common enemy; promote the development of the consciousness and combat readiness of the working class and its allies and not obscure this consciousness; serve the interests of all allies and not be detrimental to the working class; not limit the independence of action of the party of the working class; and at least not impede the approach to more far-reaching goals.

Characterizing this position of the West German Communists, W. Gerns, member of the Presidium and secretary of the Board of the DKP, noted that political compromises "frequently have to be made in the struggle within one's own ranks against sectarian or right-wing opportunist trends, and sometimes even against both simultaneously." (18)

Of course, the ability and readiness of communists to make a definite compromise with social democrats does not mean that they can give up their ideology; there are limits of permissibility of compromise, going beyond which is fraught with the danger of social reformist degeneration of communist parties. Cooperation of both working-class parties on the basis of political compromises also cannot objectively be regulated only by positive elements of reciprocal contractual obligations adopted on various levels. It unavoidably includes in itself a "conflict" side as well, "unavoidably" since the internal contradictions reflecting the basic antagonisms of capitalist society's socio-economic and political structures do not disappear.

Correspondingly, the objective reasons and prerequisites for the capitalist structure's comprehensive ideological influence on the working-class movement's development also do not disappear; they actively promote the constant reproduction of contradictory processes and trends in it. Finally, the differences of both parties which are being and have been drawn into the orbit of the unitarian dialogue also do not disappear; the nature of the specific functions they perform in the working-class movement and their ideological principles remain generally unchanged.

Criticism of social reformism is an integral part of the communist struggle for overcoming the split in the working-class movement. This criticism is not a goal in

itself; on the contrary, the communist parties subordinate it to the tasks of the struggle with capitalism for the resolution of global, universal problems, that is, to goals of creation. Thus, the program documents of the Communist Party of Belgium state that "criticism by the communists (of reformism—author), enabling it to avoid the traps of sectarianism and the conceit accompanying it, must be precisely oriented on the effective struggle for progress and peace. Such criticism is a prerequisite for unity." (19)

The dialectical law of negation lies at the basis of this criticism. "No, not naked negation, not wasted negation, not skeptical negation..." V.I. Lenin emphasized, "but negation as an aspect of linking, as an aspect of development, with retention of the positive. The dialectical aspect" proper requires, in Lenin's words, "indications of 'unity,' that is, of linking the negative with the positive, the discovery of this positive in the negative." (9, Vol 29, p 207) In showing the difference between vulgar criticism and dialectical criticism, V.I. Lenin wrote that a "negative" slogan "dulls the consciousness, for such a slogan is shallow, a naked yell, and an empty declaration." (9, Vol 30, p 125)

The communists' positive and critical position has nothing in common with the momentary maintenance of some balance of positive and negative in the assessments of social democracy. Analyzing the activities of the Panhellenic Socialist Movement (PASOK) from the standpoint of new possibilities which revealed themselves in connection with its accession to power in the country in 1981, X. Florakis, general secretary of the Central Committee of the Greek Communist Party (KKE), emphasized that it is not a matter of "giving it pluses and minuses and playing the role of some sort of detached arbiter, but a political position expressed in specific activities. The KKE is given to clearly understand: each of the government's steps on the path of democratization will find our full support, and any deviation from this path will encounter determined resistance." (4, 1982, No 5, p 34) And now, despite the fact that relations between the Greek Communists and PASOK have become noticeably complicated, the KKE is attempting to adhere to such an approach.

The communists see their task as eliminating unsubstantiated and scholastic criticism of social democracy's ideological and political positions. They take into account the presence of centripetal trends which strengthen the differentiation in its ranks. Characterizing his party's position on this issue, G. Napolitano, member of the leadership of the PCI, emphasized that the Italian Communists "have renounced insulting labels" with respect to social democracy and "have begun gradually to correct primitive judgments, which have given way to more in-depth and more differentiated assessments. They have begun to study more closely the individual social democratic parties and their governmental activities, to better catch light and shadows, successes and limits of the so-called social democratic way." (20)

The insufficiently considered and not always objective assessments of social reformism have only recently resulted in criticism being perceived in social democratic parties, in the final analysis, as an accusation that they...are not communist. The positive and critical analysis of the nature of social democracy assumes a comprehensive rethinking of the functions being performed by it in the working-class movement, the exposure of those of its specific traits and features beyond the framework of which it cannot go without forfeiting its ideological and political integrity and originality. Objective limits of social democracy's shift to the left and the radicalization of its ideological and political doctrine exist at each given stage of development. And no matter how actively social democracy resorts to the tactic of borrowing separate provisions and slogans of the communist parties, it does everything possible to prevent the "erosion" of its ideological and political form.

Such is the historically established reality on the basis of which the communists are striving to solve the problem of the dialectical combination of the criticism of social reformism and unity of actions. Communist parties adhere to this approach even in those countries where the anticommunism of social democracy is manifested with special sharpness and strength. The difficulty here is that anticommunism is a complex, heterogeneous phenomenon and does not remain something unchanging and ossified. It has its history and "anatomy," which has changed together with the development of public life. However, even contemporary anticommunism is not something which has congealed, always "equal to itself." It is experiencing a definite evolution while adjusting in its own way to the quite dynamic reality of our time. Therefore, the effectiveness of the positive, critical approach of the communists will depend to a great degree on the political ability to distinguish at each specific historical moment the anticommunism proper of social democrats and their non-communism.

The essential basis and the socio-political functions of anticommunism and non-communism are by no means identical, although there are points and even strips of contact between them. Anticommunism is destructive by nature, non-communism is alternative. Considering this difference, one cannot forget about the resourceful assertion of bourgeois propaganda that for scientific socialism all that is non-communist is anticommunist.

The main thing is that anticommunism, and even more so non-communism of social democracy, does not preclude the possibility of its cooperation with communists not only in the struggle for peace and mankind's survival but also against the policy and even the ideology of the bourgeoisie.

All of this reaffirms the need to improve the forms and methods of the ideological struggle linked with exposing the essence of the two approaches—constructive-critical and the destructive-critical.

The task of constructive criticism is to clarify by means of specific historical comparison precisely what in social democratic ideology and policy was (and remains) the result of reformist revisionism and what was a justified to some extent or another—from the standpoint of workers interests—review of the theoretical and strategic baggage in accordance with the changing conditions of the socio-political struggle and historical reality itself.

If the main principle of constructive criticism, based on knowledge and understanding of the real essence of social democracy, is negation through assertion, then the destructive, predetermined criticism of former days is negation for negation's sake. The destructive syndrome of criticism was caused by the dogmatic mechanical thinking which was enthralled by the idea of total nihilism. The reflexively negative perception of the object of criticism is nothing more than the result of a sort of "tunnel vision," overcautiously canonized and ignoring the depth and complexity of the socio-political processes. In destructive criticism, which is the symbol of dogmatic bias, intolerance is actually identified with idealism. Meanwhile, as life shows, the sharpness of the form of expression by no means compensates for the futility of the content of such criticism.

Destructive criticism, in the final analysis inevitably imposing earlier declared views and impressions as being the only true and unchanged ones, creates an unnatural situation for unitary dialogue. As A. Vassalo, general secretary of the Communist Party of Malta, emphasized, the struggle with the incorrect, mistaken views must be conducted as a struggle for the unity of the working-class movement. "We cannot allow criticism of the social democratic views to be turned into some kind of 'sport' for the sake of narrowly (and at times quite arbitrarily!) interpreted ideological purity. True communists have always valued the common success of the cause of progress and peace more than the advantage of their own organization." (4, 1987, No 12, p 8)

The new imperatives of the alarming, rapidly changing world compel communists to increase not only the methodological and ideological and theoretical level of the criticism of social reformism, but also especially the standards of the political dialogue. The concept of dialectics in its original sense—the art of argument and persuasion—is acquiring an increasingly greater practical significance. Speaking at the Meeting of Parties and Movements in Moscow, M.S. Gorbachev emphasized: "What is required, if I can put it this way, is a more perfect culture of mutual relations between the progressive forces. This would allow all of the diversity of experience to accumulate and would serve as an understanding of the surrounding world in all of its many colors and contradiction. 'The arrogance of omniscience' is akin to fear for its ability to cope with new problems and is evidence of the vital habit of rejecting other points of view straight off. This will not result in either a dialogue or a productive discussion. But the main thing is that the cause suffers." (1, 5 Nov 1987)

The standard of the political dialogue is determined, of course, not only and not so much by the external form of its expression as by its substantial constructive filling, by the common goal which its participants pursue. The basis of a valuable dialogue is its equality in the eyes of truth, which no one, not to mention monopoly, has the right to claim as a priority possession. Such a dialogue assumes freedom from mechanical psychology of stereotypes and myths, rigid ideological and political formulas in all instances of life, the readiness to apply truth not only to others but also to oneself, and the ability for constructive-critical understanding of what is contained in opponents' reasoning and arguments and is valuable for allied cooperation.

The 1987 document "The Difference in Ideologies and Mutual Security," drafted jointly by the Academy of Social Sciences under the Central Committee of the Socialist Unity Party of Germany (SED) and the SPD Program Commission, is an example of the new form of thinking. It is unique in that it is the first joint program manifesto of communists and social democrats since the break up of the German working-class movement. Moving away from the threat of mankind's self-destruction, the SED and SPD emphasized the priority significance of common efforts in the struggle to remove the nuclear danger, ensure life and humane living conditions for all, preserve the biosphere and overcome the ecological crisis, and eliminate the indebtedness and find a way out of the disastrous economic situation for developing countries. To this end, both parties recognized the need to demonstrate sincerity and the capacity for dialogue, strengthening trust, consensus, and partnership in solving joint problems.

The dialectical balance of the approach to the problems examined in this document is clearly demonstrated in the fact that emphasizing the common, parallel or converging interests and goals and new points of convergence have not by any means obscured the problem of ideological differences between the communists and social democrats.

What is more, in the opinions of the SED and SPD, the dispute on differences in positions on problems of power, democracy and attitude toward the means of production must be introduced into the framework of mutually acceptable dialogue, the participants of which must follow strictly determined norms and rules, in particular:

- No one can claim the right to unilaterally expressing impartial criticism and conducting a discussion in a polemical manner conduct without recognizing precisely the same rights for those being criticized;
- Criticism of social practice in a different system must be based on facts subject to verification and characterized by a striving to understand the other side's logic;

—A realistic, differentiated approach to the depiction of the other side acquires a very important significance for the new standard of political discussion, which is replacing the propaganda of "image of the enemy";

—The principle of sovereign equality must be in effect in criticism and ideological disputes, which means that neither side can claim what it refuses the other. (21)

This document shows how huge the reserves are for expanding cooperation between communists and social democrats in the struggle for survival of the human race, the preservation of its environment, and the solution of very important socio-economic and political problems. The positive evolution of the positions of social democracy on a number of key issues of war and peace is expanding the antiwar potential of the peace-loving forces capable of preventing a nuclear catastrophe and is favorable for creating the prerequisites for a transition from a "balance of fear" to a state of secure peace between peoples and states with different social systems.

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FRG Communists' Achievements Said To Believe Their Numbers

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[Article by Valeriy Avgustovich Brun-Tsekhovoy, candidate of historical sciences, research associate of the USSR Academy of Sciences International Workers Movement Institute: "The FRG of the 1970s-1980s: Problems of Culture in the Policy of the German Communist Party"]

[Text] Many West German scholars and commentators far from sympathetic toward communism believe that the political influence of the German Communist Party [DKP] cannot be measured merely by its small size and modest election results. This forced admission is accompanied, as a rule, by charges against the Communist Party of dogmatism and blind obedience to the instructions of Moscow and Berlin. Such is the conduct, for example, of W. Mensing, author of the book "Moles in the Culture Bed". In his opinion, the communists' activity in the cultural sphere is subversive and imbued with dogmatism because they are guided by V.I. Lenin's well-known proposition concerning two cultures in each national culture under capitalism (1, p 21-22).

Undoubtedly, the activity of the DKP in this sphere is causing conservative circles considerable apprehension. The reality of the 1970s-1980s provides much confirmation of this—how otherwise to explain the "profession bans" for communist teachers, the obstacles which are

encountered by the now-traditional UNSERE ZEIT festival or the denial of an appearance on television to Franz-Josef Degenhardt, writer and performer of political songs, the political rock group Fleau de Cologne or the master of political theater Dietrich Kittner (despite the fact that Kittner is not a member of the DKP and his theater, according to the well-known West German writer G. Wahlraf, "is politically the most significant and relevant cabaret of our time") (2, p 217).

But is it possible to speak of dogmatism if the party, while considering V.I. Lenin's viewpoint, emphasizes in its program "Culture and Cultural Policy in the Anti-Imperialist Struggle": "The boundary between elements of democratic and socialist culture and the prevailing imperialist culture of the Federal Republic is not formal and institutionalized, it is substantive. It is manifested in contradictory positions, which may be encountered in one and the same publishing house, in one broadcast, in one textbook and in the activity of one and the same teacher or author" (3, p 6).

W. Mensing maintains that from the communists' viewpoint culture and art are only an instrument in the class struggle (1, p 4). This position is not a discovery of the DKP, it was characteristic of the German workers movement back at the time when the SPD was guided by the ideas of revolutionary Marxism. What is more important is something else, which W. Mensing glosses over. Cultural activity of an anti-imperialist nature is for communists not an end in itself, it is exercised "in the name of a *humanitarian* (my italics—V. B.-Ts.) image of man characterized by solidarity in the struggle against the monopolies, an aspiration to cognize the laws of society, nature and technology, a capacity for mastering for the sake of the common good the processes of social development and science and technology and a capacity for being the subject and not the object of history" (3, p 18).

The realization of these humanitarian ideals corresponding to the interests not only of the working class but also the vast majority of the people of the FRG requires profound changes in the main spheres of spiritual culture—the educational system, the mass media and entertainments industry and in artistic creativity and the forms of its dissemination (see 3, 6). The most populous organization of the FRG working people—the German Trade Union Association (DGB)—also considers these the main spheres in the cultural life of society (see 4). All these forms of social life, in which the personality is shaped, should be, as the communists emphasize, free of the influence of big capital.

In the 1970s the DKP drew up program documents on problems of education ("Education, Society and the Future," "For a Democratic Higher School") and engaged in several activities devoted to various problems of culture with the participation not only of the communists but also social democrats, union activists and representatives of the progressive professional classes. The positions formulated thereat were essentially an

integral part of the cultural and political alternative of the communists. Granted the depth and thoroughness of the analysis of the cultural development of West German society contained in this material, real achievements and "each step of actual movement are more important than an inch of programs."⁵ Can the DKP, small and unrepresented in parliament, make a real contribution to a change in the working people's spiritual living conditions? The activity of the communists in various spheres of culture permits an answer to this question in the affirmative.

In our view, in a situation where even the 8 million-strong DGB is not in a position to force the ruling circles to implement its demands in the field of education dictated by the working people's interests—primarily an end to social selection in the schools, an improvement in the opportunities for the children of workers for higher education and the participation of representatives of the unions and democratic youth organizations in the administration of the vocational training system—any step aimed at satisfaction of the masses' direct interests and capable of motivating them to struggle for their demands, however modest initially, is important.

The DKP's attention to the general school in the context of its cultural policy is perfectly explicable. It is here that the personality is "programmed," and for the first 20 years of the FRG's existence, what is more, when the government was headed by the CDU/CSU, this "programming" was exercised for the most part in accordance with conservative concepts. The existence of three types of schools—high schools with a 12-year term of tuition permitting the certificate of maturity examination to be taken and university enrollment, 10-year scientific high schools which afforded the right of enrollment in other educational institutions and the main 9-year schools which permitted the hope only of an apprenticeship at an enterprise or in a vocational school (they are made up of the children of working people)—has effected social selection.

The social-liberal coalition government which took office in 1969 carried through certain reforms in the field of education, which corresponded to the demands of the broad democratic public, primarily of the unions. Spending on education increased; in the lands in which the governments were headed by the social democrats general 10-year schools designed to replace the schools of the three types and afford children from the least well-to-do families equal educational opportunities were created.

The reforms in the educational sphere quite soon came up against a lack of resources and the direct resistance of the conservative parties in the land governments and local authorities. Under these conditions the DKP, in agreement with the unions' demands concerning the need for an increase in the numbers of the general schools and ultimately their conversion into the sole type of school, the extension of the network of kindergarten as

the initial level of a uniform educational system and so forth, went further. The DGB and individual unions confined themselves, as a rule, to an appeal to the government, paying insufficient attention to the mobilization of those whom the unsolved nature of educational problems affects.

The communists combine activity in the municipal authorities with the enlistment of the masses in actions aimed at satisfying their interests. "Many people have spoken of the DKP as the 'kindergarten party' in Nuremberg" (6, p 149), G. Stiffater, member of the DKP Board, observed at the Hamburg (1973) party congress. The problem of children's establishments was, at that time, in any event, very serious—for 36,000 children 6 years old and under in Nuremberg there were only 8,000 kindergarten places. The communists gathered statistical material on the shortage of kindergarten and on this basis drew up a program demanding the construction within the next few years of 70 kindergarten in the city. The communists took these proposals to the people of the city—they set up information stands, around which discussion arose and children's festivities were conducted. Approximately 20,000 signatures were collected for the DKP's demands (6, p 150). The public pressure was crowned with success—a decision to build new kindergarten was adopted.

Very typical of the communists' activity in the sphere of education, as in other spheres of culture also, is the endeavor to awaken in the working people a belief in their own powers and the need to act for themselves, which, in the opinion of the powers that be, is dangerous. What else could explain such a seemingly insignificant episode in the small Hessen town of Doetzheim (it is of such episodes that the DKP's struggle for the democratization of education and for guaranteeing the people access to learning is composed, incidentally)? Several hundred parents and students gathered to discuss the invidious position of the school in the town (23 classrooms for 850 schoolchildren) were being addressed by the communist A. (Mateyka), who called on them to seek an extension of the school building. That was all. But an educational adviser who was present here demanded an end to the meeting as being "communist". He had not cared for the support with which those present had greeted the communist's words (7, 23 October 1974). And as for the "communist" nature of the meeting, neither at that time nor subsequently has there been an independent party organization in Doetzheim—the few DKP members of the city are part of the organization in Wiesbaden. Sufficiently convincing proof, in our opinion, of the truth, which is recognized by the bourgeois press also—the DKP's influence is far in excess of its numbers and election results.

The rightwing coalition which is currently in office in the FRG is planning to eliminate the reforms implemented in the interests of the working people by the social-liberal government. One target is the guidance and stimulation level, that is, the fifth-sixth grades, where the students

are taught jointly before assignment to school's of different types. Wishing to enshrine the inequality in the educational system, the CDU leaders are seeking the universal restoration of the practice of different school streaming after the fourth grade even. This is the case in Hessen and Lower Saxony, for example. The communists of the Hessen city of Mainatal revealed in their newspaper the demagogic nature of the Action for Freedom of Choice of School organized by local Christian democrat politicians.⁸ You can just imagine what efforts it has taken for them to convey their position to the people of the city. And this has not been in vain—much data confirm parents' interest in their children attending a general school where one exists or, in any event, being taught together for as long as possible.

The program demands of the DKP (and the unions' demands which are close to them) in the field of education are an ideal which is hard to attain in a bourgeois country today. But the communists are not inactive. Knowing how unpropitious the "starting" conditions are for the children of worker families, they are holding classes, to the extent that the possibilities of the local party organizations permit, with schoolchildren from these families. This was the case in the city of Oldenburg, for example, where the First Aid action was supported by social democrat and nonparty teachers (7, 30 August 1976). The communists' perseverance and, what is most important, the successful experience of the organization of such classes permitted the legislative enshrinement of this practice in a number of instances (7, 17 July 1979).

An important direction of DKP activity in the cultural field is struggle for the democratization of the mass media. The party demands in its program documents the transfer to democratically controlled public ownership of the Springer, Bertelsmann, Heinrich Bauer and Holtzbrinck major publishing concerns.

Radio and television in the FRG are "public-legal" organizations, that is, they are not owned by monopolies and are not a state institution. "All socially important forces" have to be "proportionately represented"⁹ in the radio and television and administrative councils managing them. The unions come under this definition also, but their representation is wholly inadequate—in the Bavarian Radio and Television Council they had at the start of the 1970's only 1 representative out of the 32,¹⁰ and at ZDF (the second television channel), 3 out of 66.¹¹

"Proportionality" thus by no means signifies parity, which is what the unions seek. In addition, parity participation in the management of enterprises "protecting bias," that is, the mass media, is banned by section 81 of the law on the organization of an enterprise. The communists are opposed to the "section on the protection of bias," and the fact that this position is dictated not by narrow party considerations is attested by similar demands in the documents of a number of unions.

The DKP considers a most important task protection of the public-legal status of radio and television. The communists participated actively, for example, in the struggle of all democratic forces against the 1972-1973 "radio and television putsch" in Bavaria—attempts by CSU Chairman F.-J. Strauss to subordinate local broadcasting and television to the complete political control of his party. The DKP was the sole party to support the appeal of the Radio Broadcasting, Television and Motion Picture Workers Union to the employees of North German Radio for a strike (7, 10 December 1979). This protest, thwarted by a judicial decision, was to have been the response to the actions of the Christian democrat prime ministers of Lower Saxony and Schleswig-Holstein, who aspired to a sharp increase in the land governments' influence on personnel policy and program content.

The communists are demanding social security for all employees of the mass media, which includes job protection and guaranteed earnings for regular and non-T/O employees, the introduction for creative workers of uniform contracts and the protection against dismissal of accredited union representatives.¹² This demand has a political focus, after all, the publishers or broadcasting center executives frequently use the threat of loss of job to put pressure on progressive journalists.

There are not many communists in radio and television and in the publishing houses. But they defend the interests of their colleagues so consistently and actively that W. Mensing involuntarily acknowledges in his sharply anticommunist book: "In the broadcasting centers the communists are actively campaigning for daily social demands. O-TON, the DKP shopfloor newspaper for employees of West German Radio which has been appearing regularly for a number of years, does this in model fashion. It does not miss a single opportunity to find a 'peg' for political work, as far as the quality of the food and prices in the restaurant" (1, pp 43-44).

Although the DKP's demands aimed at a democratization of the mass media system are not "purely communist" (similar demands are being put forward by the DGB, the Young Socialists and other democratic organizations), their implementation in the foreseeable future is unlikely. All the more important is the creation and the activity of mass media not controlled by big capital expressing the interests of the working class and other antimonopoly strata.

At a price of huge efforts the communists have succeeded in scoring certain successes in this work. Confirmation of this is the work of the newspaper UNSERE ZEIT. At the time of the upsurge of the antimissile movement it was the broadest platform for the exchange of views of its participants adhering to various views. Peace supporters far from agreeing with the DKP in all things called the newspaper editorial office by the "disarmament

telephone". Foreign policy specialists gave them authoritative advice. The significance of this is hard to overestimate, considering the extent of militarism's propaganda offensive.

Various politicians "left of the CDU"—social democrats and greens—have written in UNSERE ZEIT more often in the 1980s than previously. There have been frequent articles by union activists and middle-tier union leaders even.

Nonetheless, a most important task of UNSERE ZEIT, as of other papers of the DKP, is, as before, breaching the conspiracy of silence and combating the slander against the party on the part of the majority of the mass media. Conveying to the broadest possible working masses that Communist Party newspapers express their interests is a most important condition of the elimination of anticommunist prejudice. This is a difficult, but practicable task—after all, the DKP newspapers not only propagandize the communists' fundamental social and political alternative but also show what may be done "here and now" to protect the working people's interests.

The product of publishers not formally associated with the DKP, but adhering to a Marxist viewpoint on problems of domestic policy and international life enjoy certain demand among the democratic community. They include Nachrichten, which publishes, aside from books, a journal of this same name devoted to socioeconomic policy and the union movement, and (Pal)-Rugenstein, whose subject matter is the broadest range of political and scientific problems. Mention should be made further of the (Plene) Publishers putting out phonograph records, books on music and collections of political songs.

W. Mensing, and not he alone, of course, considers all these and other publishers making up the Association of Socialist and Democratic Publishers and Book Dealers part of a propaganda machinery concealing the true aims of the DKP from possible readers. The facts show the utter invention of such assertions. Thus, Mensing believes, the tasks of the Nachrichten Publishers are "to consistently portray the interests of wage workers, seeking from the unions, as the working people's class organization, a stepping up of class struggle; a consistent position counterposed to social partnership" (1, pp 122-123).

But surely many active social democrat union members, who cannot be suspected of a switch to the positions of the DKP, writing in NACHRICHTEN speak of the need precisely for consistent defense of the working people's interests and about the fact that "class struggle from above" needs to be answered by class struggle "from below"? Familiarization with the trade union press persuades us that books of the Nachrichten Publishers are studied in the unions—where the militant mood is strong, at least. This is quite a vast readership even now, when the unions are on the defensive.

Many books published by the (Pal)-Rugenstein Publishers also enjoy a response in the unions. Records of political songs produced by the (Plene) Publishers are advertised by the union press, including the DGB organ *WELT DER ARBEIT*. The records are frequently used in the union training system, particularly by the Union Youth organization. And this is not only the best refutation of anticommunist fabrications but also testimony to the particular effectiveness of the communists' publishing activity—a most important area of the struggle for the democratization of the mass media.

Substantiating in the cultural and political program the working class' claim on all the genuine spiritual wealth of society (3, p 9), the DKP is doing everything for the realization of this as much as possible within the framework of the current system. It is a question, of course, of what is possible in spite of the cultural policy dictated by the interests of the monopolies. The data of quite an extensive opinion poll commissioned by the federal government testify, we believe, to the seriousness of this task.

Only 11 percent of those polled deny the need for themselves for broader access to culture. Among the remaining 89 percent who recognized the importance of introduction to artistic creativity or closer familiarization with art, 32 percent (simultaneously) expect from an introduction to art "more beautiful free time," 37 percent see in art the possibility of education and food for thought, 36 percent wish with the aid of creative activity to develop the imagination and possibilities of self-expression and, finally, art would in the opinion of 24 percent help them better understand reality.¹³

Realization of the aspirations reflected in the poll data is encountering a multitude of obstacles, beginning with the education which the children of workers receive in school. Indicative in this respect are the words of a participant in a cultural debate conducted by *UNSERE ZEIT* back in 1970. According to a union activist, in the basic schools, where the bulk of the children of working people is taught, an attitude toward art as some "prettiness" entirely unnecessary for life and remote from it is inculcated in them. This was how he also had perceived art and literature until he made the acquaintance of a lecturer of the union training system. He, a Marxist, "told us about paintings, literature and music in their connection with the social and political situation. Art appeared in a different perspective. Having previously seemed boring, it suddenly came to life for me" (7, 27 November 1970).

For many working people of the FRG introduction to art begins precisely thus, and frequently by attending performances by (D. Zyuverkryup), F.-J. Degenhardt, H. Wader and W. (Branasskiy)—writers and performers of political songs who in the 1970s tied their creative destiny to the DKP. Their concerts, agitational in thrust, become striking, memorable events thanks to the gifted poems, music and performance. Those who reproach the

communists for "turning" art and literature into a tool of political struggle should recall the words of the prominent German educator (I.G. Zeyme): "Any good book (and, as experience shows, song!—V. B-Ts.) has to be more or less political" (2, p 6).

The force of political song has had to be acknowledged by avowed anticommunists even, W. Mensing, for example, who is inclined to reduce the DKP's entire activity in the sphere of culture merely to agitation. But were these songs simple, aesthetically vapid "agit leaflets," would H. Wader or F.-J. Degenhardt be frequent guests at big trade union meetings and demonstrations, particularly those organized by Union Youth? The following fact says a great deal: approximately one-fourth of radio listeners polled by the journal *DIE STERN* is in sympathy with the authors and performers of the songs (14, No 5, 1980, p 120). They were not mentioned in the poll by name, it is true, but the writer-performers whose lyrics carry a strong charge of social criticism were manifestly implied.

Symphony concerts for workers put on by the DKP Board and local party organizations since 1969 are now traditional. The best works of German and world classics are performed at the concerts. The party board issues brochures describing the composers' work. The audiences, who are made fools of daily by items of the monopoly culture industry, are beginning to understand little by little that the "working class and working people need elevating music and that they have a right to it. The ideals which live in this music belong today more than ever to the workers movement and the forces of peace and progress, and less than ever to the bourgeoisie, which is daily flouting them."¹⁵

The *UNSERE ZEIT* festivals, which have been held since 1974 in a city of the worker Ruhr, are becoming a genuine festival of democratic culture. "For 2 days," the music critic A. Maske writes, "the prevailing culture encounters an adversary whom it so fears, it would seem, that it never ventures a discussion with it."¹⁶ Truly, the "big press" glosses over the *UNSERE ZEIT* festivals in silence. Nonetheless, up to 400,000 persons gather at them. "The secret of the success of this festival," according to the communist cultural specia' I. Huebner, "is that there have been no attempts there to convey communists' policy to the masses in a roundabout way. The artistes of the most varied genres who have performed, believing that their activity is inseparable from the broad spectrum of the democratic movement, have not become 'tools' of political work. All currents and genres of democratic culture have found a responsive and interested public here" (17, p 128).

Much could be said about the truly great interest in the *UNSERE ZEIT* festival—in the political debate and in the rich and striking cultural program. We shall confine ourselves merely to an episode adduced by I. Huebner. Among the festival's guests with whom she chatted was a Frankfurt "Sponti," that is, a representative of the youth

negatively disposed toward the capitalist system in the FRG, but expressing protest predominantly in the sphere of culture and art and advocating not organized but spontaneous action.¹⁸ He was here by accident and found the festival "absolutely unrivaled," adding, almost apologetically, "that he had thought the communists incapable of putting on such an alternative festival" (17, p 129). Need we say more?

Symphony concerts for the workers and the entertainment activities at the UNSERE ZEIT festival are the DKP's most important actions in the leisure sphere. Together with them local organizations are performing constant work, not so striking, perhaps, but no less important. It is sufficient to glance at the party's city newspapers. For example, they suggest that parents deprived of an opportunity to provide for their children good summer recreation send them to pioneer camps of the GDR. For the unemployed who are pressed for cash the DKP demands a "zero tariff"—free use of all cultural establishments. Children's festivals, carnivals based on local tradition, performances by music groups and political cabaret artistes at the time of political actions—these also are from the arsenal of the local party organizations.

If thanks to all this activity of the communists a person daily encountering the harsh reality of crisis feels that he is not alone and that there are some others also, aside from relatives, who are not indifferent to his fate, we may be certain that the efforts made have not been in vain.

The DKP is opposed to the conservative policy of the present ruling coalition, counterposing to it the humanitarian slogan of the culture of peace, labor and solidarity. The establishment of these values in the minds of the broad working masses and, even more, the molding of a readiness to fight for them is a complex task. Its accomplishment is being impeded by many factors of both an objective and subjective nature. We are least disposed to exaggerate the impact of the Communist Party and the cultural figures associated therewith on the spiritual processes occurring in the FRG. Nonetheless, the serious bourgeois newspaper which believes that, despite the negligible election results, "the DKP cannot be underestimated"¹⁹ is profoundly right. This is entirely applicable to the DKP's activity in the cultural sphere.

"Our party has made a definite contribution to the development of progressive culture, promoting the formation in the masters of art of a sense of perspective, farsightedness and self-control," G. Deumlich, member of the DKP Board Presidium and Secretariat, writes. "It is, as before, learning a great deal, believing that although the process of the formation of this culture is as yet only just unfolding, it is a question of a tremendous inspirational factor in the struggle for social progress."²⁰

Footnotes

1. W. Mensing, "Maulwuerfe im Kulturbett. DKP-Einfluss in Presse, Literatur und Kunst," Zurich/Osnabruck, 1983.

2. "For What Are We Fighting? Contemporary Political Poetry of the FRG and West Berlin," Moscow, 1985.
3. "Kultur und Kulturpolitik im antiimperialistischen Kampf," 3d Ed., Duesseldorf, no date.
4. "Vorstellungen des DGB zur Kulturpolitik und Kulturarbeit," Duesseldorf, 1981, p 3.
5. K. Marx and F. Engels, "Works," vol 19, p 12.
6. "The German Communist Party Hamburg (1973) Congress," Moscow, 1973.
7. UNSERE ZEIT.
8. DIE MAINATALER KOMMUNAPOLITIK No 1, 1986.
9. RUNDFUNK UND FERNSEHEN No 2, 1962, p 114.
10. "Kulturpolitisches Forum der Deutschen Kommunistischen Partei," Hamburg, 1972, p 150.
11. R.Ya. Kotenok, "Two-Dimensional FRG Television," Moscow, 1978, p 17.
12. "Fuer eine demokratische Medienpolitik. Vorstellung der DKP, no place, 1979, p 18.
13. "Kulturpolitische Tagung des DGB. Gewerkschaftliche Kulturarbeit," no place, no date, p 5.
14. DIE STERN.
15. "Arbeiterkonzerte der DKP 1979," Duesseldorf, no date, p 3.
16. EISERNE LERCHE. HEFTE FUER EINE DEMOKRATISCHE MUSIKKULTUR No 2, 1977, p 4.
17. I. Huebner, "Kulturelle Opposition Muenchen," 1983.
18. "Roads and Crossroads of the 'Lost Generation,'" Moscow, 1985, p 134.
19. FRANKFURTER ALLGEMEINE ZEITUNG.
20. PROBLEMY MIRA I SOTSIALIZMA No 9, 1987, p 80.

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First USSR-FRG Seminar on Foreign Marketing
18250014 Moscow *IZVESTIYA* in Russian 1 Oct 88 p 4

[Interview with Felker Undorf, head of an FRG banking delegation at Moscow marketing seminar, by *IZVESTIYA* correspondent B. Lysenko: "Learning How to Trade Successfully"; first paragraph is editorial introduction]

[Text] The first informational seminar entitled "Marketing in Foreign Economic Relations" has been held in Moscow. It was organized by the USSR Chamber of Commerce and Industry and the Westdeutsche Landesbank jointly with the Association for Business Collaboration with the FRG. An *IZVESTIYA* correspondent met with the head of the representation of the state banking institution in the FRG's largest state, North Rhine-Westphalia, Felker Undorf.

[Lysenko] We know that the Westdeutsche Landesbank is the third largest commercial bank in the FRG and has cooperated with Soviet banks for many years in conducting foreign exchange and credit operations and in financing various projects. Who in your bank had the idea of holding such seminars and why is it taking place precisely at this time?

[Undorf] The idea of holding this informational seminar was mine. And this is why. The volume of trade between the USSR and the FRG was quite low in 1973. By 1984 it had increased tenfold—basically because of Soviet oil and gas deliveries. Then there was a definite recession. Of course, the fact that world prices for oil and gas have declined and the FRG's requirements for energy have decreased has had an effect. But this is not the only reason. The structure of Soviet exports should be improved.

Naturally, the question arises: what is to be done next? I am convinced that the USSR should try to sell the FRG not only raw materials, but more finished products as well, and this is also in response to our interests.

[Lysenko] In your opinion, just what is preventing us from changing the structure of our exports?

[Undorf] Not least of all, the philosophy of the Soviet businessman. It should be changed if he intends to enter the Western market, and he must think of production for the consumer, not for the sake of production. My personal experience shows that you have many ideas which can be converted into commodities of interest to the FRG. However, the managers of the Soviet enterprises concerned simply do not know how to turn these ideas, patents and know-how into commodities of interest to the West, and for the FRG in particular.

[Lysenko] Could you be more specific about how exporters' thinking should be restructured?

[Undorf] Certainly. First of all, they must learn to analyze the situation, to determine the status of the enterprise itself and its production capabilities in comparison with a competitor's capabilities, to compare its production standards with those of its competitors, and to organize the market, service, prices, and advertising opportunities. Briefly, this means ascertaining which products are in demand, at what prices, and in what quantities. The market can be analyzed with your own resources. But I believe that it is much better to place an order for this with a firm that specializes in marketing—perhaps even a Western firm.

[Lysenko] But this is very expensive.

[Undorf] Of course. But this is a good investment. It will safeguard the management of your enterprise from an incorrect decision.

[Lysenko] What would you recommend that our enterprise managers do subsequently?

[Undorf] In accordance with the results of an analysis of the situation and the market, the enterprise management makes a decision on organizing production of the most profitable output for export, and the analysis of the market and the management decision based on it should be passed on to every employee and every worker. Each person should feel that he is taking part in the decision and be aware of his responsibility for its implementation. Each member of the collective should have the right and the obligation to make suggestions on the best way to carry out the decision that has been made. If a savings is achieved because of this, large bonuses are needed.

The Soviet Union has excellent importers, but poor exporters. They must learn more about how to trade. The present situation in the USSR makes it possible to do this. The Law on the State Enterprise and the right they have acquired to trade in the foreign market require that such training be organized.

The exporter must be thoroughly familiar with the product he is exporting. He should be thoroughly familiar with his competitors' products, the needs of potential customers, the initial positions in selling a commodity—his and his competitors' positions, including the prices for his product and his competitor's product, the marketing channels and servicing. Finally, the exporter should know the language of the customer's country. This assumes specialist-exporters will have a very high level of training. Our seminar, we may say, is the first step in learning marketing.

[Lysenko] What objectives does your bank have in conducting this seminar without charge?

[Undorf] Do not be startled by what I will say. We are doing this for purely selfish motives. We want to give our clients the opportunity to increase their deliveries of

goods to the USSR. But we understand that this will become possible only when your exports to the FRG are increased. That is, the Westdeutsche Landesbank is investing capital now in the future development of Soviet-West German trade. This is a medium-term

investment. Success should be achieved within 3 to 5 years. By assisting you in basic marketing, we are marketing for ourselves as well.

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Polish CP Secretary on 22 July 1944 Anniversary
18070174 Moscow AGITATOR in Russian
No 14, Jul 88 pp 53-55

[Article by PZPR Central Committee secretary and Politburo member Mieczyslaw Rakowski: "Peoples' Poland Yesterday and Today"; passages in boldface as published]

[Text] In the life of every people there are dates, similar to significant landmarks, which mark its historic route. For Poland, such a date most certainly is 22 July 1944. The **Manifesto of the Polish Committee of National Liberation (PCNL)**, promulgated on that day, proclaimed that new social forces, defending the class interests of the broad popular masses, had taken upon themselves responsibility for the country's destiny. From that day forward, the struggle for national liberation from the German occupation became a struggle for social liberation, which took on a revolutionary character. The prolonged struggle of the Polish forces of the left for a national democratic state, for fundamental social and economic reforms, changed over from the field of developing programs into the field of implementing them.

Within the resurrected, new, just borders of Poland, the land was handed over to those who worked it, large capitalistic holdings were subjected to nationalization, and the state guaranteed free access to science, education, and culture and ensured the development of public health care.

At the same time, Poland's position within the system of world and European power changed and its foreign policy underwent a fundamental reorganization. Its alliance and friendship with the Soviet Union became, from then on, the cornerstone of this policy.

The Polish forces of the left, having consolidated themselves around the party of the communists—the Polish Workers' Party—at the same time took upon themselves the task of bringing about a revolution in the consciousness of the people, of overcoming the obstacles of distrust and dispute which had accumulated over the course of centuries in relations with her eastern neighbor. This task was neither simple nor easy. And so it remains today, inasmuch as political forces exist within the world, and within Poland itself, which are doing everything they can to weaken the Polish-Soviet alliance. And nevertheless, the task that has been posed is being solved. Proof of this is seen in the peace and calm that has been established for the first time in hundreds of years along our common border. This is a great historical achievement by our peoples.

Today, looking back on the path we have taken during the past four decades, we can say, with clear conscience, that the program proclaimed in the PCNL Manifesto was a realistic program, one which took into consideration that which is specifically Polish. The left political forces who put it forward succeeded in achieving the goals

which it sets forth although, in the early stages, they lacked the support of a majority of the nation and they clashed with the legal political opposition, based on an armed "underground", with which they had to wage a genuine civil war.

In the course of the first four postwar years, the reactionary opposition was broken and the foundations were created for power of the people, whose program helped to consolidate the overwhelming majority of the population. Millions of Poles from the eastern areas, which had become a part of the USSR, were resettled in the lands along the Oder, the Nisse, and the Baltic coast, which were returned to the country. The economy was successfully revived: production of industrial products surpassed the pre-war level. With increasing certitude, agriculture met the food needs of the city.

Of course, there still was no abundance in the Poland of that time, but there also was no hunger, no desperate need, nor injustice. And what is no less important, the new authorities succeeded in developing a concept for further transformation that has gone down in history as the "Polish path to socialism".

This concept, which is connected with name of Wladyslaw Gomulka, derived from the Leninist strategy of a new economic policy. It envisaged (while retaining the basic means of production and the instrument of central planning in the hands of the state) a broad utilization of leverage mechanisms and private enterprise in the economic development of the country, and also the use of economic rather than administrative methods to restrict the petty bourgeois element. At the same time, this applied only where the socialized sector could not replace the private one without harm to personal and public consumption.

Alas! A worsening of the international situation and intensification of sectarian and dogmatic tendencies in the communist movement led to a standardization of the model for building socialism. The concept of a Polish path to socialism was rejected and Wladyslaw Gomulka was removed from political activity and accused of right nationalist deviation. This respected and popularly esteemed leader shared the fate of many well-known activists of the communist movement in countries that took the path of socialist construction. He was sentenced to prison, from which he was released only at the end of 1954.

Together with this unanticipated change in the concept of socialist construction, which made its appearance at the turn of 1948-1949, the process of a merging of the Polish Socialist and the Polish Workers' parties into a single organization—the Polish United Workers' Party, headed by Boleslaw Bierut, also took place.

The new leadership of this organization, the PZPR, took the course of accelerating socialist transformations in Poland, taking the building of socialism in the USSR as

a model. To the detriment of the economic system, which had been comprised of three sectors (the state, the cooperative, and the private), the forceful ejection of capitalist elements from industry and trade began. An attempt at collectivization and dispossession of the kulaks was undertaken in the countryside. Simultaneously, the development of heavy industry and the creation of an economic infrastructure were begun on a grand scale.

In the early stages, all this made it possible to put an end to unemployment in the cities and to employ surplus rural working forces in industry and construction. However, after several years, this one-sided investment assault led to the rise of disproportions in development and, as a result, to production difficulties and a general worsening of the living standards of the broad popular masses. With increasing frequency, these difficulties were accompanied by violations of the law, engendered by a Polish version of the personality cult and by a distorted interpretation of patriotic national traditions.

Under the conditions which had developed, a conflict quickly arose between the party, the working class, and the peasantry and between the party leadership and the rank-and-file party masses. Attempts undertaken in 1953 to reduce strains in the economy and to limit the influence of the Beirutists came to naught. These appeared too bland against the background of the de-Stalinization undertaken in the USSR by N.S. Khrushchev, especially after his address at the 20th CPSU Congress, which quickly became known in Poland. The bloody uprisings of Poznan's workers, ending in June 1956, showed that, without a change in the party leadership, it would not be possible to stabilize the political situation in the country, all the more so because there was a beginning revival among the public of right-leaning centrifugal tendencies.

Among Polish activists, only one person possessed sufficient authority to rally the party and ensure its support by the people. This was Wladislaw Gomulka and it was precisely into his hands that the historical 8th Plenum of the PZPR Central Committee, in October 1956, passed the party leadership.

Wladislaw Gomulka's undoubtedly services included freeing the country from the political distortions of the Stalinist system, restoring legality, preventing conflict with the Catholic Church, returning in propaganda, science and education to sensible proportions between the concepts of patriotism and internationalism, and rejecting forced collectivization of the countryside by coercive methods. However, Gomulka did not succeed in getting away from the Stalinist economic model. He loosened the grip of centralization only, but did not take the step of bold reforms.

During the 1960s, Poland bore the burden of unresolved social and economic problems. As earlier, the prevailing Stalinist doctrine of the overwhelming importance of

production of the means of production forced the development of agriculture and the production of consumer goods into the background. This only strengthened the obsolete structure of the national economy, rendering it incapable of satisfying the growing needs of the country.

It is true that, by the end of the 1960s, Wladislaw Gomulka came to understand the need for structural changes in the Polish national economy. But he did want to carry these out at the expense of a definite lowering or, at least, freezing of the population's standard of living. His plans did not win support within Polish society, and the bloody events in coastal cities in December 1970 foreordained Gomulka's new and final departure from the political scene.

The crisis at the time in the leadership of the party brought to power the group of Edward Gierek. It proclaimed a program of modernizing the economy with the support of foreign credits. But this time, too, there were no deep structural changes in combination with the introduction of a market economy and reform of the political system. The largest sectors of industry received the largest capital investments. As regards the production of consumer goods, they, as formerly, remained on a back burner.

The market did not support the rapidly growing purchasing power of the population. The economy started to collapse and the country was burdened by a profound political crisis. Instances of the misuse by highly positioned representatives of authority of their official positions for purposes of personal gain, which became publicized, added fuel to the fire.

In June and August 1980 a powerful wave of strikes, encompassing the country's chief industrial centers broke out throughout Poland. Under the slogan "Socialism—Yes! Distortion—No!", the Polish working class refused, on credit, to trust their party and demanded constitutional guarantees against the repetition of negative phenomena. There was no point in even talking about any sort of methods to resolve the conflict besides political ones. The strikers' resolve was so great that a use of force threatened unforeseeable consequences. Under these conditions, "Solidarity" was born.

In agreeing to its legal existence, the leaders of the party and state had in mind that it would be a trade union, nothing more. The party still had opportunities to stay on top of the situation. But the process of disorganization within its ranks had gone too far for it to be able to prevent penetration into the young trade union movement of anti-socialist political groupings of various hues, which gathered strength from day to day. The weakness of the party also gave rise to the circumstance that, for many months, it was occupied solely with its own problems, dressing down its own errant members and making apologies to society for their personal mistakes and miscalculations.

It was not until June 1981 that the 9th PZPR Congress worked out a platform for consolidating the party and proclaimed a program of socialist renewal. But it was too late. Agitation within society had reached a critical level, although a large part of the population grown tired and had lost interest in the events that were occurring. "Solidarity" had been transformed into a rather motley political movement. Those who sought an intensification of confrontation in the struggle for power began to gain sway within it. The peace-keeping efforts of the Catholic Church turned out to have little effect.

Under these conditions, only the use of extra-ordinary measures, such as the introduction of martial law, could prevent a new civil war in Poland. And this decision was made on 13 December 1981. Not in order to turn the country from the path of reform, but to put a stop to the actions of its opponents and to give people time for consideration, for a realistic evaluation of the situation. The full restrictions of martial law were in effect for a period of several months and, as circumstances stabilized, these were either relaxed or removed.

The state of martial law, by removing the anarchy of strikes from the national economy and restoring a normal working rhythm to the main sectors of the economy, created opportunities for implementing reforms. Nevertheless, the situation continued to be a complicated one. Sanctions on the part of the West disrupted deliveries of primary products and materials, at the same time making the process of normalizing economic life more difficult. The help of the USSR and other socialist countries only softened the consequences of western restrictive measures. And, nonetheless, beginning in 1982, Poland set about carrying out necessary reforms.

Within the national economy, these involved a departure from an excessively centralized and bureaucratic directive system of management and a recognition of the independent, self-managing and self-financing enterprise as a basic link of an economic system in which an important role has been assigned to the market. Within the life of the state, they meant a democratization of the structure of authority and a consolidation of the positions of its representative organs (the Sejm and the peoples' councils), a broadening of their rights and potentialities, and a decentralization of administration. Democratization also encompassed electoral law.

In social life, the reforms facilitated expansion of the area for dialogue between the authorities and the citizens and possibilities for reaching mutual understanding among various social forces. A Social and Economic Council has started to function under the Sejm, whose membership includes representatives of various enterprises. A Consultative Council is operating under the Chairman of the Council of State, which includes well-known participants of varied political orientation, among them representatives of the opposition. Similar organs are also being created under Voivodship peoples' councils. The Patriotic Movement for National Rebirth

is creating broad possibilities for holding dialogues and discussions. In the very near future, a new law will be passed dealing with associations, one that will greatly extend the freedom of citizens joining together for various purposes, under the condition that they act within the framework of the Constitution.

Thinking back to the Manifesto of the Polish Committee of National Liberation and to the beginnings of the establishment of peoples' Poland, we cannot but see that the great reform movement which is unfolding within our country in the 1980's seemingly has something in common with the events of the 1940's. Both then and now, the left forces were searching for a distinctively Polish path to socialism, one which corresponds to our traditions and specific national characteristics.

This path is not an easy one, but is the only right one, leading to achievement of the goals which have been set. We have already accomplished a great deal but, as was noted at the last, 7th PZPR Central Committee Plenum, we are still progressing slowly along the path of reform. We continue to be hindered by the difficult economic situation, created by the country's foreign debt, and also be the low efficiency of our labor.

However we have a greater basis for optimism today than we had about two years ago. The growing process of restructuring in the USSR, and the similarity of its goals with the goals of our own modernization, are confirming the correctness of the path we have chosen, are providing strength, and are helping to break down conservative and bureaucratic obstacles.

The attitude of Polish society toward the Land of Soviets is different now; it has become immeasurably warmer. M.S. Gorbachev enjoys a popularity and sympathy in Poland which are no less than in his native country. We applaud the firmness and decisiveness with which he is laying out a path of new thinking about the present and the future of socialism in our complicated and changing world.

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Bulgarian Party Official Explains State Reorganization

18070018 Moscow SOVETSKAYA ROSSIYA in Russian 5 Oct 88 p 5

[Interview with Ivan Velev, deputy director of the Bulgarian Communist Party Central Committee's Institute of Social Administration, conducted by S. Abramov and I. Oleynik, under the rubric "Friends' Experience"; "From Ministries to Associations"; interview conducted in Sofia, date not given]

[Text] Sofia and Moscow—More than a year has passed since the Concept of the Further Building of Socialism in

Bulgaria was adopted at the Bulgarian Communist Party Central Committee's July Plenum. Since that time considerable changes have taken place in the country's economic life. Let us recall that in 1987 the state planning commission; state committees on research and technology, labor, and prices; the ministries of finance, trade, and public education; and all branch ministries were eliminated in the republic.

"What was the reason for such a serious step?" We asked that question of Ivan Velev, deputy director of the Bulgarian Communist Party Central Committee's Institute of Social Administration.

[Velev] In our opinion, stated I. Velev, the work of the branch ministries was directed primarily to satisfying narrowly departmental interests. On the other hand, the administrative guidance of organizations under their jurisdiction, to put it mildly, unfavorably affected the effectiveness of those organizations. New ministries were formed—ministries of economics and planning and of foreign economic relations—as well as voluntary economic groups of enterprises, associations and combines, which we have called associations.

[Abramov,Oleynik] In our country the ministerial system is also being sharply criticized. The bureaucratic position of the ministries, departments and economic-management agencies was particularly emphasized in the materials of the 19th All-Union Party Conference. Therefore, we would be interested in knowing what arguments were presented in your country in favor of eliminating the branch ministries.

[Velev] Let me say right off that the essence of the innovation is not just a name change. The association's goal is to implement a uniform technical, investment and market policy. In contrast to the ministries, which were responsible for the development of "their own" branches, the associations include economic organizations of various branches that produce output of a certain type. Enterprises that supply the means of producing it, as well as research, construction and trade organizations, may become supplementary members of an association.

Thus, the association Industry for the Person includes most light- industry enterprises: 25 associations and more than 400 enterprises. The machinery, chemistry and electronics enterprises in that association, which are joined together in 28 research centers and groups, develop new products and engage in marketing and the training and advanced training of personnel. And one more point.

It must be underscored that in the past when the state was simultaneously the owner and manager, the ministry controlled every step of labor collectives and had the last word. Now the situation has changed—decisions that are taken must receive the votes of at least half of an association's members.

[Abramov,Oleynik] And so the association is a voluntary entity. Does that mean that any enterprise may withdraw from one and join another?

[Velev] Yes, an association, officially speaking, is a voluntary union of self-governing economic organizations that are producers of goods. Their principal stimulus is economic self-interest, and not administrative compulsion, as was previously the case. Therefore, if the need arises to move from one association to another, no one will create any obstacles to that.

[Abramov, Oleynik] Who is head of an association? You will agree that a great deal depends on how it is managed.

[Velev] The highest executive body is a management council consisting of elected executives of the association and the chairmen of all organizations belonging to it. Any decision is adopted if at least 51 percent of the council votes for it. Moreover, the council chairman and his deputy chairman, who are elected for a five-year term, have no veto right.

[Abramov,Oleynik] In many Soviet state production associations, the management apparatus is frequently larger in size than the chief administrations that have been eliminated. Hasn't this chronic "disease" spread to the Bulgarian associations?

[Velev] The management apparatus of any association cannot include more than 70 people. Thus, for example, in Industry for the Person the management apparatus is one-third the size of that of the former Ministry of Light Industry. Funds for the maintenance of that apparatus are drawn from its members' shared contributions, the size of which is established by the council. The association itself makes no deductions to the state budget; they are made by the enterprises in accordance with their revenues.

[Abramov,Oleynik] You said that Industry for the Person includes an electronic systems center. Yet for that purpose there is the Electronics Association?

[Velev] The thing is, communications with other complexes are carried out through electronics centers created in all associations.

These centers are principal members of their respective associations and, at the same time, members of the Electronics Association with the right of a deciding vote on questions that fall within their jurisdiction. In general, any self-governing economic-management organization may participate as a principal member in one association and as a supplementary member in an unlimited number of associations.

In conclusion, I would like to note that, although our concept of restructuring takes the specific features and conditions of the renewal process in Bulgaria into account, it is not isolated from the positive processes

that have been taking place in the other socialist countries lately.

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Soviet Correspondent Reports from Haiti

18070062 [Editorial report] Moscow SOVETSKAYA ROSSIYA for 16 November 1988 publishes on page 5 a 1,000-word report by Mikhail Baklanov, datelined Port-au-Prince, and headlined "Does Democracy Have a Chance? An Unstable Balance in Haiti," discussing the

political situation in that country. The article is prefaced by the editorial notation: "For the first time our newspaper publishes a reportage from that Caribbean island state."

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Insufficient Fundamental Change in PRC State Ownership Seen

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SOVREMENNYY MIR in Russian
No 2, Mar-Apr 88 pp 58-67

[Article by Prof Vilya Gdalevich Gelbras, doctor of historical sciences, head of a department of the USSR Academy of Sciences International Workers Movement Institute]

[Text] As is known, although at different levels of economic and socioeconomic development, the socialist countries are encountering common theoretical and practical development problems. The specific form of their manifestation is frequently grounds for opinions concerning the predominant influence of national singularities, but a close analysis shows that the essence of many phenomena is identical and that countries at times encounter an analogous set thereof.

The decisions of the 27th CPSU Congress stimulate a more in-depth study of the socialist countries' experience. The experience of such a big country as the PRC is of considerable interest also. A particular feature of the PRC imparting indisputable value to its experience is determined by the dimensions of society and the striking diversity of objective conditions of the development of individual regions of the country.

As of the latter half of 1986 the Chinese press has begun a spirited discussion of the results of the first 8 years of the work on implementation of the economic reform and the situation where further transformations have come to depend on new political restructuring. Several topics of the restructuring of the economy, including evaluation of the changes in ownership relations which have occurred in the PRC in recent years, debate on the reform of all-people (state) ownership of the means of production and the polemic surrounding the joint-stock form of ownership, are highlighted below from the stream of diverse scientific reports and articles for debate in the Chinese press.

Changes in Forms of Ownership

By the end of the 1970s two forms of ownership occupied an undivided position in the PRC: all-people (state) and collective.¹ It has been recognized in the PRC in recent years that the rapid rate of formation of the all-people (state) and collective sectors in the 1950s had been brought about to a considerable extent by the formal, and not real, socialization of production. In addition, the degree of formal socialization did not correspond to the administrative-managerial possibilities of society and the state.

History testifies that it has been possible to retain the maximum level of formal socialization in the PRC in any sphere of the economy only for several years, society's economic living conditions each time forcing the party

to retreat and "yield its positions" even in an atmosphere of extreme political pressure—as at the time of the "great leap forward" or the "cultural revolution". For example, the peak of socialization in agriculture pertained to 1958, when the "people's communes" encompassed 99.1 percent of peasant homesteads. However, a "streamlining," more precisely, retreat, had to be undertaken in 1959-1960 even. In industry the peak of socialization was noted in 1965, when state-owned enterprises were producing more than 90 percent of the gross industrial product. Nor was it possible to maintain this level either, it being necessary to form collective enterprises, although at that time this form of ownership was considered a "tail of capitalism" which had to be "cut off". By 1975 even industrial enterprises of the collective form of ownership were producing 16.8 percent of the gross industrial product. In transport and trade the peak of socialization was reached in 1975: state-owned enterprises were providing for 98.1 percent of total freight turnover and accounted for 90.2 percent of retail commodity turnover.² The said positions shortly had to be yielded in these sectors also.

The process of change in the structure of the forms of ownership which began in China as of the end of the 1970s is fundamentally different from all the preceding "streamlining"-retreats. The CCP began to consistently pursue a policy geared to bringing specific forms of ownership into line with the level of development of the productive forces, seeking the formation of a consistently socialist nature of production relations. The party rejected the distinctive "ownership fetishism" of leftist concepts which substituted formal for real socialization and ignored the dependence of real socialization on the development of the productive forces, exchange and relationships, but aspired to the highest possible level of socialization as a priority task of the socialist movement.

According to statistical data, the proportion of all-people (state) ownership in the gross industrial product (excluding rural industry) had been reduced in round figures from 80 percent in 1978 to 60 percent in 1986, of collective ownership, on the other hand, had grown accordingly to 29 percent, and of individual and other forms, including enterprises with foreign and mixed capital, from zero to 2 percent. Similar changes have occurred in retail trade: the proportion of state trade declined in the said period in round figures from 55 to 39 percent, and collective (including supply-sales cooperatives), from 43 to 36 percent, of individual and other forms, on the other hand, increased from 2 to 24 percent.³ The practice of the leasing and contracting of small state-owned industrial, trade and service enterprises has begun to take shape.

The PRC State Statistical Administration accommodated for the first time in the report on the results of the country's economic and social development in 1986 data characterizing the changes in the structure of the forms of ownership. Thus in 1986 as a whole the industrial

gross product grew 8.8 percent compared with 1985, including that of all-people (state) ownership by 6.2, that of collective ownership by 16.7, of individual, by 60.5, and of other forms, by 34.3 percent. The increase in commodity turnover amounted in the year in the country as a whole to 15.5 percent, including that of state-owned enterprises to 12.1, of collective enterprises, to

12.7, of mixed forms, to 15.7, and of individual enterprises, to 21.7 percent. The peasants' sale of their products to the nonagricultural population grew 28.9 percent.⁴ The changes in the dynamics and amount of capital investments by form of ownership determining certain results and immediate development prospects are noteworthy (see table).

Structure of Investments in Fixed Capital by Form of Ownership

	1982	1983	1984	1985	1986	1986 as % of 1982
Total capital investments (yuan, billions)	120.0	136.9	183.3	254.3	301.9	251.6
including by form of ownership (%):						
all-people	70.4	69.5	64.7	66.1	65.5	234.1
collective	14.5	11.4	13	12.8	13	225.1
individual	15.1	19.1	22.3	21.1	21.5	358.8

Sources: "Zhongguo tongji nianjian," 1983, p 323; 1984, p 299; 1985, p 413; "Zhongguo tongji zhaiyao," 1986, p 70; "Zhongguo jingji nianjian," 1987, pp 111-42 (as published).

Evaluating the current state of affairs, Dong Fureng, director of China's Academy of Social Sciences Economics Institute, notes the shortcomings of the all-people (state) form of ownership. Specifically, he points out that at the present time enterprises of this form of ownership concerned to score quick successes are giving no thought to long-term tasks, endeavoring to use the resources at their disposal for capital investments of a nonproduction nature, an increase in the consumption fund and increases in wages, bonuses, benefits, a variety of payments and so forth.⁵ Many Chinese scientists and specialists share his opinion.

Indeed, one cannot fail to see that the proportion of investments in nonproduction capital construction constituted in the First Five-Year Plan (1953-1957) 33 percent of total spending on capital construction, in the Second (1958-1962), 14.6 percent, in the Third (1966-1970), 16.2, in the Fourth (1971-1975), 17.5, in the Fifth (1976-1980), 26.1, and in the Sixth (1981-1985), 42.6 percent.⁶ Half of these resources was spent on housing construction. Enterprises of the collective form of ownership channel negligible resources into housing construction: 12.7 percent of capital investments was used to this end in 1984, for example, and in 1985, 9.3 percent. The capital investments of individual workers represent an even greater contrast, but of a different kind: in these same 2 years they spent on housing construction more than 65 and 67.6 percent respectively of their total investments in fixed capital.⁶ As a result many Chinese economists began to discern insufficient interest in capital outlays on production needs and the expansion and modernization of production of enterprises of all-people (state) ownership and also of individual workers. As distinct from them, great assertiveness is being displayed by enterprises of collective ownership.

At the same time the summary indicators, particularly outside of the framework of all-people (state) ownership, conceal processes which are beginning to attract the

increasingly close attention of the Chinese public. They include the growing diversity of forms of collective ownership, ways of strengthening and developing collective activity in the country, the legal structuring of the sphere of individual labor activity and the appearance of private ownership, which many of the country's politicians and scholars are calling private-capitalist (this is natural inasmuch as in the sum total of businesses involving individual labor activity a small group of businessmen hiring, in defiance of the law, several dozen and several hundred wage workers even stands out).

It is impossible here to analyze the corresponding debate which has developed in the Chinese press—this is a subject for special study. But we deem it expedient to set forth our viewpoint now. The activity of an individual person (including family members who help) in the sphere of production, transport, trade and services and both subsistence and commodity farming should be ascribed to individual labor activity. Such activity assumes a private nature only when wage labor is employed permanently. However, merely the hiring of over seven-eight permanent workmen could under China's contemporary conditions permit the employer, not participating in production, to obtain twice as much income as the wage worker; the capitalization of some of the surplus value and an expansion of production with an orientation toward the market are reason to categorize such activity as private-capitalist. At the present time an absolute preponderance of the persons employed in independent activity in the sphere of production, transport, trade and service pertains in China, from the viewpoint of the said criteria, to the sphere of individual labor activity. According to the well-known Chinese scholar Liu Guoguang, vice president of China's Academy of Social Sciences, the proportion of peasant homesteads employing wage labor in the Chinese countryside constitutes approximately 1 percent of peasant homesteads, and of these, one-fourth hires more than seven

workmen, while the proportion of peasants working on private hire is 2-3 percent of the numbers of persons working in the countryside.⁷

Evaluation of All-People State Ownership

All-people (state) ownership is the predominant form in the PRC. The economic, social and political situation in the country depends on the state of affairs at the state-run enterprises. Therefore specialists' great attention to this form of ownership is natural. Two groups have stood out among them increasingly noticeably recently. Some are supporters of the concept according to which the whole essence of the economic reform, its main purpose and an indispensable condition of success amount to a change in relations in connection with ownership, mainly all-people ownership. Among the most prominent supporters of this viewpoint are Dong Fureng, Li Yining, Su Shaozhi, Wang Yingrou and others, which, however, does not preclude differences in their individual positions.

The representatives of the other viewpoint are united by a different approach: the economic reform should not affect ownership relations. Prominent adherents to this approach are Gao Shangquan, Zhuo Qiong and other well-known specialists.

The criterion of the separation of these groups is the evaluation of all-people (state) ownership. The first group shares the viewpoint according to which all-people ownership in present-day China does not exist, there is in reality state ownership, but it also suffers from many shortcomings. Their reasoning varies.

He Wei (Chinese People's University, Beijing) denies the all-people nature of the predominant form of ownership in the PRC primarily because the peasantry, which constitutes the absolute majority of the country's population, is in fact deprived of the right of ownership of the means of production in the system of all-people ownership. Not only does it not have rights of possession, disposal and use but, never being a proprietor as such, has not derived economic benefit "in the form of distribution according to labor."⁸ Second, He Wei believes that all-people ownership cannot be reduced to state ownership. Equating all-people with state ownership is usually substantiated by the fact that at the present time the state is the representative of the whole people and for this reason state ownership is all-people ownership or, conversely, it is maintained that all-people ownership assumes the form of state ownership. "I fear that these arguments are not very valid," He Wei observes. "The state is a category of the superstructure, ownership, of the economy, they cannot be mixed." "The state is a political institution, it represents the interests of the peoples of the whole country. The peasants, as part of the people, have their own delegates in the assemblies of people's representatives, where they act mainly as citizens, proceeding from the interests of the worker-peasant alliance and the sum total of interests of the

country, but not as proprietors. The peasants are masters of the state and may avail themselves of equal political rights... but this by no means testifies that they are owners of all-people property inasmuch as the peasants in no way participate in production relations within the framework of all-people ownership, they participate merely in production relations within the framework of collective ownership and never realize the right of ownership of all-people property. For this reason the master of the state and the master of the means of production are two different concepts, they cannot be confused, and one cannot be substituted for the other." He Wei writes: "The substance of all-people ownership is state ownership," all-people ownership as an economic reality does not exist, "it is merely a concept."⁹

Observing that all-people ownership is in fact state ownership, Jiang Yiwei (director of the Academy of Social Sciences of the city of Chengdu and chief editor of the journal GAIGE (Reform), pointed at first to three¹⁰ and somewhat later to five of its "flaws"¹¹: 1) concentration of the rights of ownership in the hands of government institutions, which engenders the fusion of organs of power and enterprises, bureaucratic administration and so forth; 2) enterprises become the property of government authorities, which gives rise to a discrepancy between the interests of individual departments and the local authorities and impedes the development of horizontal economic relations; 3) affiliation relations are inseparable from departmental interest in the activity only of subordinate enterprises and lead to the loss of uniform leadership of all enterprises of the sector; 4) the state, as owner of an enterprise, cannot provide for the direct combination of the working people and the means of production and the state contracts workers and employees and determines their remuneration, which "is like the state employing wage labor," and makes more difficult realization of the status of the working people as masters and prevents the full development of their assertiveness and creativity; 5) government departments, as owners of the means of production, frequently effect capital investments by administrative enactment, paying no heed to their economic expediency, and do not bear the economic responsibility for the efficiency of capital investments, and the working people are in fact kept apart from disposal of the means of production and have no interest in the results of the enterprise's economic activity.¹¹

Such considerations are the basis for the conclusion that the main thing in the present economic reform in the PRC is transformation of the current state form of ownership.

The supporters of the other viewpoint see the problems and shortcomings of the current economic system, but are not disposed to associate them with "flaws" of all-people or state ownership. For example, Zhuo Qiong is sure that if the state, preserving the right of ownership, could dispose of the bulk of surplus value created at the enterprises and ensure control of macroprocesses, while

the right of management is transferred to the enterprises, undemocratic rule and bureaucratization would be unable to reappear. "The fundamental question at the present time," Zhuo Qiong believes, is by no means a restructuring of the state form of ownership but the fact that the enterprises have not as yet acquired full right of management and control. However, his position is not entirely consistent: the author, for example, avoids ascertainment of the reasons for the continuing limitations of enterprise rights and devotes a considerable part of his publication to a justification of the expediency of the introduction of the joint-stock form of ownership. The fact that all-people ownership cannot currently be considered such in the PRC is, in his opinion, a temporary phenomenon and a feature of its development.⁶

The most developed considerations concerning the economic reform among the supporters of the second viewpoint are advanced, perhaps, by Gao Shangquan (deputy chairman of the PRC State Committee for Reform of the Economic System). He writes: "The purpose and model of enterprise reform consist of making them relatively independent economic organisms independently managing, self-supporting socialist commodity producers and economic planners with the capacity for self-accumulation and self-transformations, self-development and self-discipline which have become legal entities with certain rights and duties."⁷ According to Gao, and many other Chinese specialists also, these goals may be achieved if the rights of ownership are consistently separated from the right of management and enterprise independence is broadened.

There is some truth, as may be discerned, in the considerations of representatives of both groups. Indeed, as long as the state-owned enterprises were oriented preferably toward expanded reproduction proper thanks to practically total state support, the economic emasculation of the countryside and the freezing of the people's living standard and as long as the population was deprived of the right to choose its place of residence and work and the working people of the city were tied to enterprises for life, and the peasants, tied to the land in "people's communes," the concept of "all-people ownership" meant more a declaration of the path of development than a reality of production relations. It is clear also that the highly centralized system of control of the economy had engendered such phenomena as the formation on the basis of state ownership of, in fact, as they say in China, "department ownership" and "locality ownership," that is, local organs of power, with all the ensuing economic, social and political consequences.

One is struck by the fact that as soon as it is a question of the paths of further restructuring, the differences in the viewpoints of scientists and specialists assume a different nature and different facets. They begin to take shape increasingly as views on ways of overcoming the exclusiveness of the interests of society, the state, the collective and individual working people connected with the possession and use of the means of production. It

would seem that the concept according to which the isolation of the labor of individual workmen and collectives engenders independent theoretical and practical problems of the incorporation of both individual and collective labor in aggregate social labor, as, equally, of the combination of individual, collective and social reproduction, has come to predominate in China. Chinese scientists and specialists proceed here from the evidently generally acknowledged conclusion that individual and collective labor require social recognition on the producer goods and consumer goods markets and need for their normal reproduction an equipment and technology market, a capital and loan capital market and a manpower market.

Evaluation of the First Results of the Economic Reform in the State Sector

The transformations affected many spheres. Thus enterprises' financial relations with the state were changed. Instead of deductions into the budget of total profit, value-added tax, income tax and other forms of taxes were determined, as a result of which the proportion of profits remaining at the disposal of the enterprise grew, according to data of the PRC State Committee for Reform of the Economic System, from 3.7 percent in 1978 to 42.4 percent in 1986.

Further, the procedure of state planning was changed. The directive plan pertaining to the industrial product list was officially reduced from approximately 120 items in 1984 to 60 in 1986. Centralized material-technical supply, which had encompassed 256 listed items in 1984, was reduced to 20. The directly planned list of commodities in trade has diminished from 188 items in 1979 to 23. The rationing system of supplies to the population, which encompassed 49 listed items, had been reduced to 2—bread grain and vegetable oil—but it was necessary in 1987 to impose the rationed supply of pork, eggs and sugar in a number of cities. Last year the state determined in centralized fashion the prices of 113 listed groups of commodities, now, of 25, which account for 30 percent of the trade volume.¹¹

What are the results of the reforms in the urban economy? The evaluations of Chinese scientists and specialists are ambivalent. From the viewpoint of Gao Shangquan, the reform has not as yet led to the due changes in the position of the enterprise. First, enterprise rights are still in fact limited. The bureaucratic administration of the "middle tier" and the "social imposts," that is, the encroachment of the local authorities on the income of the plants and factories, are narrowing appreciably the rights accorded the enterprises by official decisions. The increase in contradictions, Gao Shangquan writes, "between macrocontrol and microreforms" is leading to the even greater limitation of enterprise rights. As a result the large-scale and medium-sized enterprises lack their own financial resources and economic rights necessary for the self-financing and self-support envisaged by the reform. Second, the question of the "flexible

budget limitation of the enterprises" has not been resolved: they are responsible for profits, but not for losses; a mechanism of the self-regulation of economic activity is lacking. Enterprises are endeavoring to consume, but not accumulate their own resources. The state's economic measures of pressure are not duly influencing enterprise activity. Third, it has not been possible to create in the country a "common, comprehensive market atmosphere" prompting the enterprises to new initiatives, which is making more difficult their competition on equal terms. There are instances of the "rejection of the market" and the "attachment" of enterprises to the administrative management authorities. Solution of the problems of the economic reform, Gao Shangquan believes, must be of a comprehensive nature.

Largely at one with Gao Shangquan in his analysis of the results of the economic reform is Jiang Xuemo. At the same time he notes that, according to the decree of the CCP Central Committee Third Plenum (1984), enterprise independence is limited by certain conditions: the prerequisite thereof is "subordination to the state plan and control," and it is realized "within a permissible state framework". In addition, the reform itself has only just come to be implemented, and for this reason enterprise independence remains very limited. But even "in the future, when the independence of the enterprises has broadened considerably, their right of independent decision-making will never be absolute, unconditional and total but, on the contrary, conditional and incomplete".³

Noting the weakness of the enterprises' "driving forces of self-development," Jiang Xuemo adduces the following data on the change in the proportion of profit remaining at the enterprises' disposal: in 1979 it amounted to 12.2 percent, in 1980, 20.9 percent, in 1981, 13.2 percent, and in 1982, 16.2 percent. The first stage of the replacement of profit deductions by tax was implemented on 1 July 1983, and a yearly basis of 21.2 percent of realized profit remained to the enterprises. The second stage of the transition from profit deductions to tax, after which on a yearly basis enterprises obtained 24.3 percent of the sum total of profit, was implemented on 1 October 1984. At the same time, however, it was stipulated that the collective welfare funds and the bonus fund could constitute a maximum of 40 percent of enterprises' ownresources, that is, in 1984 they were equal to 9.72 percent of realized profit (40 percent of 24.3 percent) and that an enterprise could spend no more than 10 percent of its resources on the collective welfare and an increase in the individual incomes of workers and employees (5, p 67).

Xu Yi, director of the PRC Ministry of Finance Research Financial Institute, observes that extra-budget resources amounted to 170 billion yuan, constituting 80 percent of the national budget. "Why, then," Xu Yi asks, "do the enterprises remain unable to function? It is said that the enterprises have no money. What has happened to enterprise rights and resources?" Xu Yi answers his

own questions: the policy of broadening enterprise independence has not been realized in full. According to Xu Yi's figures, the sum total of profit remaining at an enterprise's disposal does not on average exceed 400 yuan per workman. As will be clear from what follows, other Chinese scholars have reached a similar conclusion also. We would note in passing that the average annual wage of workers and employees in the PRC national economy in 1986 amounted to 1,355 yuan. The enterprises have been forced to proceed from the sum total of 400 yuan when planning retooling, drawing up social and amenity programs and awarding the working people bonuses. The key problem, from Xu Yi's viewpoint, is enterprises and their directors really being accorded "economic sovereignty". Boldness is also needed for solution of the question concerning distribution of "above-norm" national income. There has been no success in reducing the scale of capital construction in the country, and this is engendering the need for distribution of the "above-norm" national income, creating a national budget deficit and causing rising prices (5, pp 69, 70).

The well-known economist and commentator Xiao Liang testifies that in the current situation the workforce of state-owned enterprises is oriented toward obtaining the fastest return on capital investments possible, ignoring long-term programs for development of the enterprise. "The directors together with the workers are ranged against the state."

Jiang Xuemo observes that enterprises' economic responsibility for poor management results and losses is "in fact scant". "In our country the workers and employees of the state-owned enterprises, including managers, are the 'proletariat,' that is, their savings amount, as a rule, to several hundred, several thousand yuan, but if a state-owned enterprise incurs losses of the order of several hundred thousand, several million, and more at times, the enterprise managers will compensate for the loss as bankrupts, without reimbursing one-thousandth, one ten-thousandth of the loss" (5, p 67).

Examining the influence of the market on the activity of state-owned and private enterprises under the conditions of indirect macrocontrol from the viewpoint of "ability to function (right of independent decision-making), driving forces (economic interests of the effective subjects) and pressure (relations born of economic responsibility)," Jiang Xuemo concludes that the results of the comparison do not come out in favor of state-owned enterprises. At collective enterprises the situation is better in all respects than at state-owned enterprises, but still worse than at private enterprises. He concludes that even after realization of all the measures envisaged by the economic reform, the state-run enterprises, being "under the influence of the system of all-people ownership," will always be distinguished in the sphere of "independent decision-making rights, economic driving forces and self-management by acertain narrowness and will always be inferior to collective or private enterprises" (5, pp 67-68).

Zhang Zhenfu proposes essential changes to the logic of the analysis, rejecting the proposition that the formation of all-people ownership of the means of production engendered the need for a highly centralized economic system and its inherent administrative-command methods of management. In actual fact the process was different: "the initial stage of socialism," the revival by the forces of the whole of society of the national economy on the old material-technical base and the historical conditions which precluded the possibility of the choice of "other paths of modernization," plus the brief history of socialism, forced the state to assume the burden of industrialization and mobilize all forces of society for this. "In order to realize the said demands it was necessary to create the corresponding system of ownership and economic mechanism."¹⁰

The task of transition to a commodity economy is in conflict with "traditional ownership relations," whose manifestations are manifold. First, the economic activity of the enterprises is "distorted". Having gained independence, they "have acquired independent economic interests and aspirations," but their activity is confined to the current ownership relations and far from corresponds to the actions of a commodity producer (10, p 23). Second, the market mechanism is distorted. The "shackles" of the present form of ownership prevent the state-run enterprises developing in the market real economic competition. Third, the economic activity of the government is "distorted". It is the "direct owner of the means of production, and it alone has the right of ultimate decision-making," but the role of commodity producer it leaves to the enterprise. Fourth, macroeconomic regulation is weakened. Given preservation of the "traditional system of ownership," it has proven possible to effect only the separation of the right of ownership from the right of management, and this can mean only self-support. The appearance of economic difficulties for the enterprise will force the state with the aid of prices, extra payments and tax cuts, exemption therefrom and other methods of regulation to place the burden of enterprise losses on itself and on the consumer. Consequently, it is essential for success, Zhang Zhenfu and many other authors believe, to specify the "aims and model" of further reform.

Concepts of Further Reform of State-Owned Enterprises

Zhang Zhenfu proposed the following system of arguments for substantiating the new concept of reform. First, the commodity economy is the product of the development of social productive forces. The principle of equivalence in commodity exchange is the mode of realization of the economic interests of different commodity producers. It is the independence of the economic interests of the commodity producers in relation to one another which "determines the possibility" of the possession of produced commodities. Consequently, it is not private ownership which determines the need for commodity exchange but commodity exchange for private ownership. Subsequently, the precise fixation of the

affiliation of the commodities to their producer, which is regulated by the particular mode of production, is essential. It is for this reason that under the conditions of the commodity economy economies in labor and the rational use of "development resources" must be effected in the form of an exchange of commodities with equal values (10, p 24).

For the creation of a planned commodity economy it is necessary to think through anew the "rationality of state ownership" based on the state's sole, direct ownership of the means of production. The condition of this form of ownership was the "product planned economy," but it is not compatible with the "planned commodity economy". It is not possible in this connection, Zhang Zhenfu believes, to be guided by "traditional theoretical logic" and operate by proceeding from the premise that "the system of state ownership cannot be eliminated," allowing of the possibility only of a separation of the right of ownership from the right of management. The reform has already "developed an offensive against the core of state ownership" and shaken its existence to a greater or lesser extent. Enterprise leasing and contracting experiments and the appearance of a "joint-stock economy" have afforded new prospects for reflection on the reform of state ownership. Recent contradictions and difficulties have raised the question of denial of the state as the sole owner of the public means of production. Zhang Zhenfu expresses the hope that "socialist public ownership with Chinese features" (10, p 26) will emerge in the course of the reform. Dong Furen believes that the whole purpose of the economic reform amounts to reform of ownership of the means of production: "This is the most important reform, including what is most important therein—reform of state ownership and a search for an appropriate form of all-people ownership." But in this connection "little thought has been given, very little has been said and there has been even less desire to talk about in-depth discussion" (5, p 52). All that is being done as yet amounts to a reforming of the management mode and "lest the question of the reform of state activity be raised, the concept of the possibility of separation of the right of ownership from the right of management was subsequently advanced."

The logic of Dong Furen's arguments is as follows. The socialist economy is a commodity economy, and for this reason a mechanism making it possible to regulate diverse economic interests and motivate rivalry and competition is essential. Such a mechanism exists, it is the market. In order that the market might function normally subjects of economic activity which are simultaneously subjects of "independent economic interests" acting as "independent or relatively independent subjects of management" are necessary. What is needed, further, is the free movement of the factors of production—capital, manpower, product. The "comprehensive market" presupposes the operation of the corresponding economic levers (5, p 59).

Dong Furen observes that several years ago there was talk of the need for the enterprises' self-support. A great

deal of work was done on this, but the effect has been microscopic. An analysis shows that there is one reason for this—state ownership in its present form. The state, as representative of the entire people, is the owner of the enterprise. "Entire people" is an integral concept. Ownership of the entire people by no means signifies ownership of the individual components incorporated therein (5, p 59). As a result the specific "owners" do not bear responsibility for the results of enterprise activity. This is the main reason why it has not been possible to achieve the self-support of the state-run enterprises. In order to achieve self-support it is necessary to reform state ownership. The state ("in the broad sense"—the government and party authorities) always endeavors by this method or the other to intervene in the enterprise's economic activity. "Separation of the organ of power from the enterprise (and also the party from the enterprise)" has become "one further difficult question of the reform."

The transfer of enterprises from the jurisdiction of ministries and departments to that of provincial or local authorities has changed only their subordination. This change has led to the interference in enterprise affairs becoming "greater and more direct". In recent years the central authorities have cut down the number of directive indicators, but various administrative authorities are continually increasing them. When it comes to the enterprise, "it is very difficult to say how many indicators are not directive" (5, p 60). The reason is once again state ownership preventing the enterprise becoming "an independent or relatively independent commodity producer and economic planner."

As a result a number of problems has arisen. For example, since enterprises cannot be self-supporting, there is no need for them to respond sharply to changes in market conditions, although there is a need for this for enterprises of other forms of ownership. Even when state-owned enterprises wish to respond to market changes, they frequently can do nothing since they are not independent commodity producers. As a result developing the market mechanism is very difficult. "State macroregulation lacks a microbase" (5, p 60).

Dong Furen concludes that it is necessary to seek the appropriate form of all-people ownership. Some enterprises could remain state-owned—railroads, central banks, urban mass transit. Their purpose would be serving public requirements, and not making profit. Self-support need not be required of them. As far as the other sectors, however, are concerned, search and experiments are essential here.

Justifying the need for reform of state ownership, Song Yangyan and Wang Haidong (China's Academy of Social Sciences Graduate Course) write that it is first of all necessary to be clearly aware of the system of goals of the economic reform. They may be united in four blocks. The first is change in the economic mechanism. Two

interconnected relationships and two mutually determining goals are present here: the broadening of enterprise independence; the state's transition from direct forms of enterprise control to indirect (8, p 32).

The second block is the economic parameters of activity. In this case there are five interconnected relationships and mutually determining goals: price reform; wage reform; tax reform; rate of profit reform; currency receipts reform.

The third block is the creation and improvement of the system of markets. There are four interconnected and mutually determining goals in this case: further upgrading of the consumer goods market; creation of a producer goods market, including materials and equipment markets, a land market, a housing market and an equipment-leasing market; a capital market, including a loan capital market and a bond, stock and foreign currency market; the creation and improvement of a manpower market.

The fourth block is reform of ownership relations. In this case there are three interconnected relationships and mutually determining goals: streamlining the structure of the ownership system; choice of forms of ownership; application of "ownership policy" (8, p 32).

The economic reform, Song and Wang believe, has many goals, each of which stands in a particular order and system of relations. There are in this system vertical-dependence relationships: the goals of one block determine the goals of the next and so forth, and also horizontal-dependence relationships: within the framework of each block the goals also are strictly balanced. The goals of the various reforms of all blocks directly determine the economic reform as a whole. We may with reference to all blocks speak of "great comprehensiveness". But the goals in each block also form a certain aggregate or "lesser comprehensiveness". It follows from this that the practical activity of the state must be constructed with regard for these singularities, but this has yet to be achieved. For example, macrocontrol over the situation in the country was lost in 1984. This was connected with the fact that, having begun with a change in the management mechanism, account was not taken of the need for just as energetic changes in economic parameters and also transformations in other blocks.

The reform of ownership is proceeding slowly. The regulation of its structure has been achieved, and, as a result, there has been a marked rise in non-all-people forms of ownership. Collective ownership based on the actual "combination of ownership of the collective and the individual" has been reformed. Reform of the "traditional all-people form of ownership," which has become the "central point" determining the entire course of the economic reform, is proceeding the slowest (8, p 33).

In order to realize the correct direction of the reform of ownership relations the authors call attention to four lists of problems. First, elucidation of the trend of development of ownership forms in the world. Song Yangyan and Wang Haidong conclude that the main trend of their development is gradual transition from "monist to dualist and pluralist forms of ownership." The spread of the joint-stock form of ownership, which does not change the social system but permits the more flexible response to changes in the organization and scale of production, is a specific manifestation of this trend.

Second, the "traditional all-people form of ownership" is characterized by its intrinsic contradictions. They amount to the fact that there is recognition only of the right of ownership of the state and denial of the right of ownership of the enterprise, although its workers and employees create the surplus product providing for the development of the enterprise. A certain intensification of this contradiction is bringing about a crisis of the "traditional all-people form of ownership" and making more difficult the transition "from monist to dualist and pluralist all-people ownership," whereas it is only on this path, Song and Wang believe, that it is possible to bring the form of ownership into line with reality.

Third, an essential condition is the self-support of the enterprises of all-people ownership. Practice shows that the broadening of enterprise independence does not permit fundamental solution of the question of their self-support and self-financing. Nor will it be solved without enterprises having gained rights of ownership.

Fourth, the reform in the countryside is confirming the said theoretical computations—a new form of ownership has been created there: the "joint ownership of the collective and the individual". This form of ownership has made it possible to resolve the contradiction inherent in "traditional collective ownership," namely, that between the collective and the individual (8, p 35).

Song's and Wang's concept is of undoubtedly interest and merits close attention. However, one observation in connection with the "joint ownership of the collective and the individual" in the countryside needs, for all that, to be made right away. Their evaluation would seem premature. It will possibly come to the creation of this form of ownership, but as yet the situation in this sphere is complex. Speaking of the "joint ownership of the collective and the individual" is possible, but, it would seem, only with reference to certain economically most developed areas. The weakening also in a whole number of areas of the collective farm remains a fact. As REN-MIN RIBAO wrote, following the introduction of the homestead contract, the corresponding departments estimated, "40 percent of the collective farms' fixed capital was lost because of human action," and this according to preliminary data (11, 28 April 1987).

Changes in ownership relations in the countryside, primarily ownership of the land, are considerably more complex and multifaceted than defined by Song Yangyan and Wang Haidong. Thus Song and Wang either disregard the fact that official enactments of recent years have restricted appreciably the collective farms' ownership of the land: it cannot be sold, purchased or leased, used on a shared basis and rented, the use of plowland for purposes other than intended is prohibited and so forth, or are opposed to these restrictions, proposing the creation of a "land market". It evidently needs to be recognized that the time of final conclusions concerning relations of ownership of the means of production in the countryside has not yet come: they are in a process of intensive development which is unfolding extremely unevenly over the country's territory. Many truly new and interesting ownership relations have emerged in the countryside, but they have yet to take firm hold and stand the test of time.

So then it is currently axiomatic for the majority of Chinese economists and specialists that the combination of production factors under socialist conditions is mediated by the state, the local authority and the enterprise (economic unit). The individual worker in the state sector is the owner of the means of production not individually but merely in conjunction with the other members of society as a citizen. The functions and rights of owner are realized depending on the particular features of the working person's incorporation in the social cooperation of labor and the nature of the impact on this process of the state and the local authority. For this reason the working person, as a citizen and direct producer, is an indirect and incomplete owner. The degree of indirectness and incompleteness may vary, and for this reason theoretical and practical problems of the "individualization" of state ownership, that is, of a theoretical and practical quest for the closer and more direct combination of the working person and the collective and the means of production in state ownership, arise.

Implementation of the economic reform in the PRC has given rise to many new problems of development, in whose solution Chinese scholars and specialists are now engaged, and required a search for theoretical and practical answers to the questions raised by the changes in production relations. Questions associated with the prospects of the further functioning of the state sector have been broached above, in the main, however, discussion is under way in the republic just as actively of problems of the development of collective enterprises and individual labor activity.

What has been said above provides a certain idea of the paths of the solution in the PRC of problems similar and, at times, analogous to those which are being tackled in the USSR and testifies that the majority of Chinese scholars and specialists have in their theoretical recognition of the problems of the country's development rejected many of the dogmatic and illusory ideas of the

past. It is expedient in this connection distinguishing some of the most important new theoretical propositions which are the basis of the economic reform in the PRC stimulating the search for ways to extend it.

First, a platitude of the analysis of the mode of combination of the working people with the means of production is the proposition concerning the need for its connection with commodity production and economic accountability. Ownership relations are realized via the production activity of the working people and their outfits, and the latter should be recognized on the socialist commodity market.

Second, each individual worker is not as yet in his production activity in a direct relationship with society, and his labor is not yet of a directly social nature. The working person's relations with society in production are mediated by the workforce, the local authority, the department and the state. The workforce must be unconditionally acknowledged to be an independent and sovereign commodity producer. The successes of socialism will depend to a large extent on the specific economic forms of activity determining the actual place and role of the workforce in the system of social production.

Third, all-people (state) ownership in its current form has many shortcomings and it cannot in all instances be deemed the highest and, even less, most efficient form of ownership—much will depend on the methods and conditions of management preventing elements of rot typical of any monopoly. The state and collective forms of ownership are absolutely equal. They can and should have many varieties and can and should mutually interweave and penetrate one another, given strict observance of the principles of voluntariness and mutual benefit in their relations and the exercise of independent economic accountability.

The essence of the current problems of development is making the direct producers and their workforce the real, and not nominal, owners, ensuring for them real rights in the organization and improvement of production, the sale of products and the formation, distribution and use of enterprise funds and entrusting to them complete responsibility for the results of their economic activity.

Fourth, the relative economic exclusiveness of enterprises, ministries and departments and the formation of regional economic complexes distinguished, furthermore, by a varying level of development of the productive forces are engendering their particular economic interests, which may or may not coincide with public and state interests and could come into conflict with them assuming an acute nature at times. For this reason study of both the particular economic interests and their exponents, ascertainment of the problems and contradictions in their social existence and the search for paths of development and the creation of a permanent mechanism of the coordination and unification of particular

economic interests have been at the center of Chinese scholars' and specialists' attention in recent years.

What has been said is every reason to conclude that political economy is a branch of knowledge experiencing a period of upturn in the PRC and reaching new frontiers of its development. Unsuitable concepts and considerations are gradually being ascertained and rejected and fruitful ideas and views are being preserved and developed in the course of practical verification and objective discussion.

Footnotes

1. For a detailed analysis see "The Working Class in the PRC's Socioeconomic System," Moscow, 1981.
2. "Handbook on the Economics of Present-Day China," Beijing, 1982, pp 68, 69 (in Chinese).
3. "Chinese Economic Yearbook. 1987," Beijing, 1987, pp III-21, III-48 (in Chinese).
4. XINHUA YUEBAO No 2, 1987, pp 67, 68.
5. XINHUA WENZHAI No 4, 1987, p 60.
6. "Concise Statistical China Reference, 1986," Beijing, 1986, pp 70, 76 (in Chinese).
7. ZHONGGUO SHEHOU KEXUE No 6, 1986, p 14.
8. JINGJI YANJIU No 9, 1986, pp 38-39.
9. JINGJI XUE WENZHAI No 2, 1986, p 4.
10. JINGJI WENTI No 6, 1986, p 22.
11. RENMIN RIBAO.

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Correspondents On Chinese Economic Reform
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[Article by IZVESTIYA special correspondents A. Druzenko, N. Yefimov, L. Kapelyushnyy, and Yu. Savenkov: "China Trip"]

[19 May 88, p 5]

[Excerpts]

1. Only on a Long Journey Do We Understand Peoples' Hopes

On any trip there is a point where the traveller becomes saturated with information. His senses become blunted.

and he can no longer tell the common from the uncommon.

On our 15th day in China (we leave for home tomorrow), not only were we skillfully (or so it seemed to us) managing the chopsticks that substitute for silverware, but our sensibilities were no longer taxed by such concepts as the distinction between the right to own and the right to manage. We had ceased asking for clarification of the phrase "The state regulates the market, and the market guides enterprises" and were no longer surprised to find state, collective, and stockholder property in the same plant. When referring to petty human jealousy, we used the Chinese expression "disease of the red eyes," while we adopted the graphic term "breaking the iron bowl" to describe China's battle with its age-old scourge: uniformity.

And finally our last visit—a radio plant in Wu Hang—is behind us. Whatever we failed to find out, see, or ask about will remain a mystery, and we begin the inevitable arguing over how and about what to write, the purpose of our trip to China, and what we learned (that is, about their reforms.)

The Chinese reforms are three times older than our perestroika. In October of this year, China will mark the 10th anniversary of the Party central committee's December plenum, where it was announced that a decision had been made to shift the focus from "class struggle" to socialist modernization and economic techniques of reform. The objective was to dismantle the ossified economic system, expand the socialist commercial goods sector, and breath new life into society.

Li Feng Lin, the PRC's minister plenipotentiary at its consulate in Moscow, instructed us before we left: "Don't be embarrassed to ask questions about anything. Remember, the Chinese now have a free, unfettered mindset." We followed his advice throughout our journey, and thanks to the efforts of our colleagues at Chingji Ribao (ECONOMICS GAZETTE), our trip not only covered considerable ground, but was extremely interesting as well.

We spent several days in Beijing, speaking with some leading economists and the heads of a number of political departments. We also interviewed Tian Ji Yong, the deputy premier of the PRC State Council, and scrutinized the activity in the huge city, the new highrise hotels, and the colorful street bazaars you run across everywhere you go.

I would guess that most of our readers have not exactly been keeping up with events in Chongqing. And we did not know that much about it either. Chongqing is a city of 14 million at the confluence of the mighty Yangzi and Jialingjiang Rivers, where, because of the hills, it has grown into one of the only cities without bicycles, the main mode of transportation in the country. Chongqing is also a city of economic innovation. It was here that the

Chinese began creating their markets for tools and machinery, raw materials, etc. From Chongqing, we spent two days sailing down the Yangzi on Riverboat No. 10, an ancient vessel that was packed with every manner of person engaged in everything from official business and commerce to personal affairs. We then visited Shashi, a small city by Chinese standards (it has population of "only" 290,000), and one which is exceptionally green and tidy. Why was Shashi chosen? Because years ago the PRC State Council chose it as the test site for its first economic experiments, obviously because its small size reduced the risk and limited the potential damage of the first "flight." We then travelled 230 kilometers through rural areas of Hubei province. It was late April, and the peasants were transplanting rice; wheat was already spiking, and in two or three months would be harvested and replaced by corn. The land is generous and there is abundant rain and sun, so two harvests are guaranteed as long as one is not lazy and peasants are left to do the jobs they know best without interference.

In order to counteract attitudes that discouraged industriousness, the Chinese are now left alone, and have been for ten years. Evidence of what the independent peasant can do has already been tangibly felt without any capital investment at all. Nor does one have to be an economics expert to see the results. Just look at one of the amazing street bazaars we saw, with every manner of food and clothing available. It is very clear that individual and cooperative labor are encouraged, not discouraged. Family brigades have an important part to play in agriculture, cottage industries, commerce, and restaurants, and their effect is felt everywhere. The many cafes and snack bars in the private sector compete with each other, and their prices are not only comparable to those at State facilities, but sometimes lower. So who is the loser? Before the reforms, fruit and vegetables were available in Peking only in summer and fall. Now you can get them year round. And the farther we got from Peking, the more abundant and diverse the offerings of the bazaars became, and the lower the prices dropped. Later, when we ask one of the members of our diplomatic corps what feature of Moscow struck him most after his tour of duty in Peking, he will answer: "The absence of commerce. There is a depressingly small number of stores, and the situation is even worse with cafes."

The words "Only on a long journey do we understand people's hopes" were written by the great Chinese poet Tu Fu. We met and spoke with many people in the course of our journey, and the poet was right. We heard no objections to the reforms. But not because no one opposes them. In fact, we were told the "local monks" (which is what local administrators are called) sometimes implement Party and government resolutions "inappropriately." There is no shortage of bureaucracy in China, and the country is battling it. In the course of our trip, we once again came to learn the truism that traditions and customs may differ, but bureaucrats are

the same everywhere, like diseases; they employ the same techniques to defend their privileges. And just as they cling to outdated ideas, they are incapable of understanding new ones.

There are also amazing coincidences. At almost the same time, both *IZVESTIYA* and a local Chinese newspaper printed very similar articles. The Russian one, entitled "The House on the Quiet Street," discussed a case in which apartments in a prestigious building in Riga had been assigned in secret. The Chinese article dealt with a similar situation in Paodin. Evidently, local authorities had been instructed to institute reforms in the housing assignment system. But they had just finished putting up a modern building—for themselves. So what were they to do? The solution was to assign the apartments to themselves in secret and publicly endorse the reforms. Unfortunately for them, the situation is changing. The papers got involved and exposed the old authority-oriented system of management that gave a small circle of administrators privileges, power, and the freedom to use their power for selfish ends, including the outright solicitation of bribes. As economic forms of management become more widely used, this system will fall by the wayside, and clearly not everyone is ready to see this happen.

The key feature of the Chinese reform is the extent to which it has produced results. This is the source of its support among the people. Of course, not every peasant in a family brigade earns 40,000 yuan like his "farmer from Archangel" counterpart near Chongqing. But unlike the Russian "farmer from Archangel," the Chinese farmer does not have to defend himself from the attacks of the papers and central television station. The reforms themselves protect him. We were told that when Chinese peasants obtained the right to rent land for 15-20 years and become completely independent, they pasted the newspaper article announcing the newly granted right on the yokes they use for carrying buckets of water, in case some local bureaucrat tried to intimidate them as before. They no longer have to do this. The reform is a reality.

We would be doing a disservice in the cause of truth if we ignored the level at which reforms in China started. The country was (and still is) *de facto* in progress—pure *Tiexi*, any step forward was immediately noticeable. We asked many people why China had been able to get itself from its standstill. Our Chinese acquaintances explained that three factors were responsible for the initial success. First, the cultural revolution left the country in such an extreme state of lawlessness, poverty and management chaos, and the subsequent nightmarish years prepared people for even the most revolutionary and radical measures, as long as they would improve the situation. As the Chinese proverb states, "If the matter is grave, it is resolved." Second, China recognized the mistakes it had made in the recent past, and discussed the nightmare it had lived through in its entirety instead of hashing out the individual details piecemeal. Third, the Chinese people were told the truth about China's position in the

world community; they knew how their labor productivity and salaries compared with those in Japan, the US, and West Germany. They were told that China's per capita GNP is one of the lowest in the world, that the rural population obtains its food primarily through the use of hand tools, that many enterprises are decades, and even centuries out of date, and that one quarter of the population was illiterate or semi-literate. No one was afraid this would create an inferiority complex. And as the reforms have shown, none was created.

The report to the 13th congress of the Chinese Communist Party stressed that China is only at the first stage of socialism; that is, it is at the point where the country "gradually rids itself of poverty and backwardness." In our minds, admitting they were at the first stage opened the door to economic experimentation. Instead of painting their accomplishments as merely "the next stage" in their development or tethering themselves to dogma and fear, they simply stated that they had begun a journey and had the right to find their own way through trial and error.

We were soon, although not immediately, struck by the fact that the Chinese with whom one converses do not use quotes or refer to the opinions of their leaders. They use their own words and express their own opinions. The time has passed when both citizens and foreigners were force fed a diet of pre-composed pabulum. This sense of individuality, human dignity, and intellectual emancipation is another of the results of the reforms, and one which some of the people we spoke with regard as the most important. Of course we ran across certain local "theoreticians" who were unable to put together two phrases without the help of notes, but they were not the ones we based our overall impressions on. And after all, you find a few people like that everywhere.

We should also note that the farther we got from Peking, the more frank people became. In the heart of the country, there is no need to look over one's shoulder at the capital, especially as China does not have a "capital complex." We frequently heard people say that 10 years ago they would not have dared to speak so openly with foreigners, particularly Soviets. And we reiterate that no one made even a single attempt to mislead us about their standard of living or sell wishful thinking as a real bill of goods. Staff correspondent Hu Xiao, who showed us "the womb of Chongqing," took us through the kind of back streets that we quite possibly would not have shown him if we had been in his place. Times have changed. Or to say it better, a new generation has come on the scene.

Almost everywhere we went, we heard people speaking about the new generation, or, to be more precise, the juvenescence of management cadres. We even checked our observations to see if the problem of age was bothering the people we were talking to. "Of course it is!" they would interject at, for the sake of example, Wuhan University. "We have to base our actions on the interests of the majority, we need younger managers; we need to stop appointing management personnel for life.

Reform is something new, and younger cadres are a key element of its success." We should add that the people we spoke with at the university were between 34 and 43 years old. Most of the plant heads we met with were the same age. And we met with the best and brightest: people who represent the underpinnings of the reforms; people who spent years resurrecting failing enterprises from the quagmire of neglect; people who had modernized facilities and started producing goods in demand at home and abroad; and people who have helped double the wages of their workers.

At the beginning of this article we mentioned the road in Hubei province.

But the most impressive thing was not the road or the slalom techniques necessary to negotiate it, but what we saw along the way. Just as it is impossible to hide the bad from people, it is impossible to hide the good. You see what you see. As we said before, the region has come back to life. Every third vehicle was delivering construction materials, such as brick or tile. New houses were going up everywhere you looked—houses that bore no resemblance to those constructed 10-15 years ago. Peasants no longer think only about putting a roof over their heads; appearance is now a concern. Many of the houses are two story affairs with balconies, yellow doors, and green ornamental lintels to enhance their attractiveness. None of this was possible before 1978, when the gray, monotonously colored buildings of city and countryside and blue clothes dominated the everyday landscape. The words "Don't stand out" symbolized the time. Now the people have other concerns. Differentiation stimulates progress and promotes both social and individual growth.

We were possibly the first Soviets in two decades to take the two day trip down the Yangzi aboard a regular steamer. For two days we made acquaintances, talking and arguing with the multitude of passengers lying next to one another in the narrow corridors and multi-cot cabins. The ship was somewhat reminiscent of one of our 20s or 30s vintage train stations.

During the first few days of our trip, we heard ringing on both banks of the Yangzi. The boat sailed through what sounded like Easter bells. The sound came from stonemasons who were using steel wedges to cut blocks for building foundations, millstones, and heaven knows what else from the rocky channel of the river. The scene reminded us of Blok's: "I break the craggy cliffs in the hour of the ebb-tide on the silty bottom." We can still hear the ringing—the prologue to the great job of building ahead.

[20 May 1988, p 5]

[Text]

2. The State Regulates the Market; the Market Guides Enterprises

As we have already said, the Chinese reforms have been around three times as long as our perestroyka.

However, it would be a mistake to extrapolate from the ratio between these periods of time that their reforms have accomplished three times as much as perestroyka. After all, the two countries started their reforms from completely different stages of development. So to us the issue of who started first or who accomplished more is unimportant. What matters is the principles perestroyka is based on. For this reason, our efforts to learn about the economic reforms in China today were aimed more at "how" reforms were being implemented rather than "what" they had accomplished.

We have been planning to speak about the principal players of perestroyka. Who are they? We think it will be interesting to look at the professional qualities of the people whose independence, judgement, and courage have earned the unqualified confidence of the State.

Let us first look at Xiong Jiafa, head of a washing machine plant in Chongqing. Xiong looks like "one of the people of the past," at least when we compare his outward appearance with that of some of our other new acquaintances, such as Yan Guifang, head of the Wuhan Department Store, Xiao Fang, who runs a towel factory, Liu Dian, head of a radio plant, or the other managers and members of the "new generation." Everything about his appearance and manner seemed to indicate that he was more tradition- than reform-minded: his drawn, ascetic face, his short crewcut, his traditional blue high-collar jacket (which was invented by Sun Yat-sen and became the symbol of an era), and his slow, deliberate speech. But in our opinion, Xiong Jiafa is the perfect example of what perestroyka means, possibly because he had to stop at 58 years of age and change himself before proceeding with the changes of perestroyka. Xiong was appointed party committee secretary at his enterprise in the days when the plant director had the right to a second vote after the party committee was finished; in other words, he always had time to fit a candidate into the mold he wanted. But then the situation changed.

In 1985, when the term "directorial prerogative" first appeared in the economics lexicon, Xiong applied for job of director of his enterprise.

The idea of electing enterprise directors is nothing new to us. But what is noteworthy is that the candidate has to do more than just meet the basic pre-requisites for the job. He also has to present his co-workers with a program—a plan for technical and economic development—that is backed by hard data, and not just rhetoric. And if the candidates fail to appeal to their co-workers, no one resorts to electing the best of the worst.

An issue of particular interest to us was whether party organs and pursued a policy of making "themselves" more prominent and forced "their" candidate on a collective. We were assured that this no longer takes place.

We feel that Liu Xuede, deputy director of the Wuhan Committee on Reform, gave us the key to understanding

this situation. He told us about a recently elected enterprise director who was "advised" by a high official to put a relative of the latter in a key slot at the enterprise. The director immediately agreed, and said the individual could start as soon as the sum of several thousand yuan (a huge amount of money for any worker) was placed as security in a risk fund. When asked what would happen if the indemnity were not paid, the director answered that unfortunately it would be impossible to accommodate the request.

In another case, our Xiong risked not only his reputation but personal resources he had put into a risk fund as well. His idea was to manufacture inexpensive washing machines for low income Chinese. His plan was to produce 400,000 units per year, with a 33 million yuan profit. Using his right of "directorial prerogative," he handpicked the team of production managers he felt he needed for the project. Of 40 engineers (for 838 workers), 11 were rejected for the job.

We should note that there is also a definite Chinese side to the rights possessed by a Chinese director. He can demote at his pleasure, but has virtually no right to fire a worker. This system, which is now accepted throughout China, has reached the point where a person takes a job for his working life, gets regular raises, and, upon retiring, sees his son take his job. However, the workers' certainty that they will always get their next bowl of rice has not exactly helped stimulate industriousness.

What do the numbers tell us? Before modernization, which Xiong feels is the key element of his program, the plant produced 50,000 washing machines, a total output worth nine million yuan. But by 1987 the output was already 130 million yuan. The average annual growth rate is a phenomenal 94 percent. The profits—410,000 yuan in 1983 and 22 million yuan in 1987—are also phenomenal.

How were they able to make this kind of profit? The answer is they secured credit, added what modest profit they had, and purchased two production lines and a license for semi-automatic washing machines from Toshiba, the Japanese company. They then obtained machinery and learned to use it so quickly that even the Japanese, who are no strangers to hard work, were amazed. It only took 66 days to put the first line together. Within nine months, the credit had been paid back. Last year, 325,000 washing machines were produced, and the level projected for this year is half a million.

The reforms have also affected well-established firms, such as the thermos plant in Shashi.

All the personnel at the plant are now using the contract system, and the profit tax levels have stabilized at what is supposed to be the 1990 level. Fifty five percent goes to the State, and the plant keeps the rest. The ratio is different for profits earned above the level in the Plan: 30 percent goes to the State, with the plant keeping the

remaining 70. The collective sets the size of its own funds (wages excepted.) Half the materials and parts needed for manufacturing are secured using these funds, while the remainder is purchased outright. The plant makes its own decisions about where it should sell, how much it should export, etc.

But while Liu Ming, head of the thermos factory, is a model of calmness and confidence, his colleague Xiao Fang, director of the towel factory, is nervous and tense. We are quickly assured that profit tax levels and demand are stable and exports are steady, but...

This one "but" is that the opportunities for growth are limited. The plant is located virtually in the center of the city, and with houses all around, there is no room for expansion. Yet in the face of a seeming impasse, a solution was found. The plant merged with four unprofitable enterprises: another towel factory, and plants making shoes, knit goods, and electrical appliances.

But we are warned by Xiao Fang to keep in mind that: "This is not association or annexation. It is a merger."

What is the difference? In principle, association and annexation are administrative acts, while merger is an economic one. In simple terms, merger means a profitable factory pays the debts of an unprofitable one and acquires the right to its physical plant, capital, and labor.

Two figures may prove interesting. The towel factory that was acquired in March of last year was losing 25,000 yuan per month. By April of the same year, it had made a profit of 300,000 yuan.

China's recent economic activity resembles a gigantic mosaic consisting of pieces of various sizes, from tiny to huge. Of varying degrees of hardness and brightness, some glitter and others are dull colored, while the seam joining them may or may not hold. Nor are they all of equal age, with some new and others very old.

The enterprises we saw were a few glass tiles in the gigantic mosaic. Naturally, they are inadequate for making broad conclusions, but they do enable us to learn what the main features of the Chinese reforms are. These include a growing number of genuine opportunities to be entrepreneurial, manage in accordance with the laws of economics rather than instructions, buy what is needed, sell what one has made, earn, buy again, manufacture, and earn again.

Words popular in China today include "gaige," "shichang," and "kaifang."

They mean "reform," "market," and "openness."

These words indicate the tactics, strategy, nature, and philosophy of the Chinese economic reform. What are the wheels that drive it?

When we were in Chongqing, we asked specialists at the city machine building agency, which has no equivalent in our system, what these wheels are.

According to Li Weiming, the deputy director of the agency: "We have dramatically cut the amount of planning by directive. Only seven percent of all production falls into this category any more, and even this amount will decline in the future. The bulk of all goods (91 percent) is produced in accordance with general plans developed independently by enterprises and submitted, for information purposes only, to planning agencies. The agency cannot adjust the plan either up or down. The remaining two percent of goods production is regulated by the market.

Planning by directive is necessary for enterprises, since it guarantees they will be supplied with raw and other materials and ensures the sale of their goods. Enterprises using general plans are typically not supplied from centralized sources and sell their own goods (at state retail and wholesale outlets, their own stores, and the free market.) And market regulation, for the most part, has local industry, seasonal goods, and services within its ambit.

One of the questions we asked at the Chongqing Machine Building Agency was: "What are the maximum and minimum levels of planning by directive that is accepted at your enterprises?"

"We have a plant that produces power equipment. Planning by directive accounts for 60 percent of its output. But at the movie equipment and motor parts plants, there is no planning by directive at all.

This is a key point. The strategy of reform is oriented toward encouraging the independence of enterprises. It is thus at the very root of planning. In going over our situation with state purchasing organization representatives, we were forced to concede that Chinese enterprises are more independent than ours. The proof of this is the relation between the three levels of planning. Planning by directive accounts for 30 percent of total industrial output, general planning accounts for 40 percent, and market regulation accounts for 30 percent.

After planning, supply is the most important tool for effecting reform, and fundamental changes have been made in this area. One again, the strategy is the same: discontinue centralized distribution ("rationing") of resources and begin buying and selling them.

"Market" is the password of China's reforms, while the countersigns are "means-of-production market," "technology market," "financial market," and "real estate market."

One of the first of these markets, the Center for Buying and Selling the Means of Production, was created in Chongqing in 1984. Both buyers and sellers in this

market were industrial enterprises. The goods traded included electrical and textile products, chemicals, industrial clothing, spare parts, and agricultural raw materials.

The main sources of revenue for the center were commissions secured through its services as an intermediary, rent from commercial and storage facilities, and profit from joint enterprises the center had invested in. But the bulk of income was realized through resale of resources. The pricing system is flexible, so goods sell at hard state-set prices (the goods in this category represent a small portion of the total sold), so-called "floating" prices (which have upper and lower limits), and free (by agreement) prices, which are regulated by the market (that is, by supply and demand.)

In 1985, almost 2,000 enterprises used the services of the center. In 1987, this figure was 3,000. Relations with these enterprises are purely commercial: a contract is concluded upon settlement of the terms and dates of the agreement. The issue of whether the enterprise is able to sell its products is the concern of the enterprise, not the center.

And now the final detail. The center is currently located in an old seven-story building that used to be a warehouse. But a new 23-story building is going up at top speed and should be ready for occupancy in September. A comparison of the two buildings shows how much progress is being made.

Currently, there are hundreds of these centers and wholesale markets in China, with the market serving as the conduit through which a growing share of industrial and agricultural production reaches the people. While 250 individual goods were previously supplied through centralized means, that number has now dropped to 20. Limits are set only for certain extremely scarce goods, although even here the number has been shrinking lately.

The market changes the psychology of managers. We were told: "Previously, when an enterprise needed something, they asked the mayor or ministry. Now there is no point in waiting on their doorsteps, and they head for the market instead."

Everyone knows the positive side of wholesale markets: raw and other materials and components are sold more economically; huge stockpiles do not accumulate; and enterprises produce only what they can sell. But there is also a negative side, the most important aspect of which is price increases. The subject of considerable debate and argument, price increases are seen as a major obstacle to the implementation of the reforms.

What causes prices to increase? There are many reasons. Once it is set in motion, characteristic distortions of a market take place. For example, if the amount of rolled steel distributed at state-set prices shrinks, the market immediately reacts and makes steel twice as expensive.

Merchants are allowed to sell products shipped from other provinces at market prices. They do, but the prices they charge are so high people say: "The goods make it here, but the prices snowball en route." Alarmed individuals discuss the conduct of certain monopolistic producers of some goods, who set and raise their own prices. A statement made by one director is quite interesting: "At work, I make sure our factory's goods sell at the highest price possible, and at home I grumble about climbing prices." Raising prices is the easiest way to increase profitability. But the burden of this profitability falls on the shoulders of the consumers.

Price reform is one of the items on the overall reform agenda. China is aware that this is a complex issue and will not be resolved overnight. Many economists feel price reform will obtain support only if it is able to be implemented without harming the majority of people. Thus, economist Li Yingying proposed implementing price reform gradually, in stages, as the financial posture of enterprises improves. Regardless, eight or nine years will be needed to complete the reform, after which the market will be the sole regulator of price. We can therefore see that the strategy for reforming price creation, which is based on commercial and financial principles, is also on course.

The effort to stress the market has made the issue of dealing with unprofitable enterprises a matter of great concern. China is looking for novel solutions to problems such enterprises create.

A major question is whether the state should always be the owner of small unprofitable enterprises. The answer decided on is no. Such enterprises are leased to collectives or individuals. Another approach sometimes used to control bankruptcy is to permit workers and other personnel to acquire shares in the unprofitable enterprise, with some of the potential profit becoming theirs in the form of dividends.

Another technique we have already discussed is more promising than these: merging profitable with unprofitable enterprises. Many people feel this is the most effective and socially just way of preventing bankruptcy. Some observers even call mergers the "third stage of the reforms," where "granting broad rights to enterprises" and "implementing the contract system" are stages one and two.

The desire of profitable enterprises to expand and the struggle of unprofitable ones to survive have created a unique "market for enterprise mergers" in Wuhan. The terms of a merger are strict. The unprofitable enterprise naturally loses its right of juridical person, while the new "owner" just as naturally assumes the responsibility for the debts of the enterprise it has "absorbed."

Some economists feel that mergers of this kind are more promising than permitting private individuals to acquire unprofitable enterprises, since their effect is long term, keeps the enterprise in the public domain, and solves both economic and social problems (employment, retirement benefits, etc.)

We asked Wuhan director Xiao Fang, who is an expert in such matters: "What are the main principles of a merger?"

He answered: "First, they must be completely voluntary. No bureaucratic machinations! The economic benefit to be obtained from a given merger is the only argument in its favor. Second, the strength of the profitable enterprise has to be weighed against the weakness of the unprofitable one. The former has to be strong enough, and the latter has to be just as weak. Otherwise they both lose. Third, they both have to have the support of banks, or no maneuvering is possible. And fourth is timing. It is important to seize the moment. Haste and hesitation are equally bad.

As with anything new, there are plenty of problems associated with mergers. There is still no middleman or clearly defined organization to deal with the purchase and sale of enterprises on the verge of bankruptcy, and the "merger market" simply continues to grow. And in those cases where, instead of the market, some agency takes the initiative, it often ends up making the "wrong match," according to people we talked to. For example, administrators tried four times to arrange a "marriage" for the Wuhan Cement Equipment Plant, each time unsuccessfully. A "wedding" only took place when the bank, which knew the ropes, got involved.

The last thing we want is for our readers to get the impression that the Chinese reforms are an "economic miracle." Indeed, the many people we spoke with made it abundantly clear that the reforms are more in the serious prose than the fairy tale genre.

We were told in frank terms that the reforms are running up against serious problems, including: inflation; price increases; supply and demand imbalances; shortages of many resources; differences in processors' and extractors' level of development; wage increases that have often overtaken productivity increases; and, finally, the inertial resistance that has long been at "work" in the adys of the management apparatus. To us, this seems most revealing. A balanced view of their accomplishments, a realistic assessment of their prospects, and an awareness of the difficulty ahead are the elements that make up the intellectual and psychological foundation of the Chinese economic reform.

[21 May 1988, p 5]

[Text]

3. How to Break the Iron Bowl

As we tried to decide on a place to eat in the Xian night bazaar, we were chosen to be dinner guests by a strapping fellow wearing a crumpled white cap. He was Cheng, the owner of a small "restaurant." As soon as he saw us approach his grill, he started smiling and waving his arms as if we were old friends, and in no time at all were

sitting on low benches, looking curiously at the business this enterprising person was able to transport on his bicycle. Prominently displayed inside the tent was his license with a color photograph of its holder. In the picture, Cheng looked not so much younger as he did less confident...and a lot thinner. Happily reminiscing, Cheng said: "Oh, that was a long time ago, back when my brother and I were still tilling the soil." Magically practicing the art of cooking beneath a tent that seemed minuscule to us, Cheng told us how he had left his land to his brother and taken up business. Working by himself from six in the morning until midnight, he is able to handle the competition and pay his taxes.

Covering several blocks on the main street of the city, the Xian bazaar stretched out on both sides of us amidst smoke and pandemonium. It was a place where one's fat wallet could deflate instantly to purchase a wardrobe. Or one could have nothing but pocket change, and end up eating noodles, vegetables, and the traditional bowl of rice. With a few yuan in your pocket, the prospect of a banquet unfolds: rows of smoked duck, reflecting a delicious amber light, hang in surrealistic poses; the smell of pig's feet, ears, and tails permeates the air; grills with giblets are everywhere; and there are mountains of vegetables, from native sweet peas to exotic lotus. And much more. The kitchens in the bazaar were less eating establishment than spectacles, where noodles and other foods are created before your very eyes: dough is tossed high in the air, egg is added (with the skill of a conjurer) and the dough compressed to microscopic thinness on the face of a hot grill, sauces and spices are added for seasoning, and the result is rolled into a tube. The final product is a won-ton with the "fragrant scent of spring."

The bazaar in Xian was more colorful than Peking's, but for the most part such bazaars are common in modern China. A sort of seething volcanic crater of initiative, the bazaar has become a part of the economy. It warrants special attention and serious study, but we will limit ourselves to calling it exemplary of the Chinese reforms.

The sellers at the night bazaars include both professionals and moonlighters, who work there after a day at the office or factory. In order to give up steady, albeit low wages and become an independent businessman, one has to not only know how to handle risk, but also be able to please one's clients. For example, although it seems almost trivial, when Cheng is cooking, he offers his customers their choice of juice, water, or beer. He even has a few bottles of different kinds of vodka on a nearby table, although Chinese for the most part are indifferent to this particular "poison." Cheng adds nothing to the price of his drinks, but he has everything figured out: cold drinks stimulate appetite, and clients order more to eat. The profit—and we stress that it is profit, not income—is calculated right down to the last yuan. By the end of an evening, he has about 70 yuan. Is that a large or small sum?

We were constantly comparing the variety available at the stalls with the real income of the Chinese, especially since our rare official meetings and interviews did not touch the issue of inflation or price increases. The fact is, there are many stores and eating places, but purchasing power is still low.

The average Chinese worker earns 120.5 yuan per month. We met heads of thriving enterprises who earned only slightly more: 170-190 yuan per month. Compared to them, Cheng the restaurant owner was rich.

But what can they buy? Here are the prices we noted for some industrial goods in Peking: mens shirts—7, 20, or 25 yuan (depending, of course, on how up to date the style was and workmanship); men's suits—from 130 to 280 yuan; men's shoes—27, 39, and even 150 yuan; powder puff (men's jacket)—50-100 yuan; jeans—20-25 yuan; bicycle—180-280 yuan; sewing machine—200 (basic model)-350 (latest multi-function model); medium size refrigerator-1,100 (one compartment)-1,380 (dual compartment) yuan; large imported refrigerator-3,200 yuan; "White Chrysanthemum" washing machine- 448 yuan; black and white television-538-760 yuan; color ("Great Wall") television-1,380 yuan; and irons—20, 30, and 85 yuan.

Next are some of the prices charged for basic foodstuffs at the bazaar. A kilogram of rice is .94 yuan. Corn flour is .64 yuan per kilogram; soy beans—1 yuan 25 mao; cabbage—.16 yuan; large onions—.40 yuan; hot pepper—3.20 yuan; potatoes—.44 yuan; field mushrooms—2 yuan; lotus root—1.20 yuan; bean sprouts—.50 yuan; high grade pork—4.80 yuan; goose—4 yuan; chicken—4.50 yuan; duck—5.40 yuan; chicken eggs—1.70 yuan for 10; duck eggs—2.70 yuan; and goose eggs—5 yuan.

We copied these figures directly from the slate blackboard at the entrance to the Guang Yingchao indoor market in Chongqing. They were the prices from the previous week, and are posted by the market's administrators to orient customers to what costs were earlier. The bazaar gets virtually no instructions about how to regulate prices, which are set through natural mechanisms.

The main way of lowering prices (and not only at bazaars) is to saturate a market. The fear that someone might make a fortune and violate the tenets of socialism has finally given way to common sense and the idea that earning a lot of money is no sin. As long as it is earned!

Of course everyone wants to benefit from the reform, but if people start losing ground they become nostalgic about the uniform wages and benefits of the past and their "guaranteed bowl of rice." They find it difficult to part with their former security blanket, even though most of them know it cannot provide them with real security. And salary, or, to put it differently, discarding the system

of uniform salary, is becoming the hallmark of the reform, and in the opinion of many experts is what is stimulating economic growth and a better standard of living.

In this connection, it is interesting to look at local experts' opinion of the Guinness Index, which shows the extent to which incomes are differentiated. An index of zero means all incomes are equal, while an index of one means income is concentrated in the hands of a few people. According to UN figures, the world Guinness Index fluctuates between 0.2 and 0.6, and is statistically forecast to reach 0.3 in China only in 1990 (it was 0.2 before the reform.) That is, China has only made its first steps away from its previous wage uniformity. And it is true that differential income has created a stratum of well-to-do people, but the people we spoke with felt that enriching the few to ultimately enrich everybody was the only way to go.

Now let us look at the damage done as a result of the fact that former peasant Li works at the Chongqing market selling pepper, grain, nuts, and other agricultural products. We introduced ourselves to him and asked him to answer some questions, at which point a crowd of 30 or so persons gathered and began listening and reacting enthusiastically to our conversation. Li, a hereditary peasant from Sichuan, is the father of two children and owner of a small plot. Four years ago, he decided to take up business, which is now his sole occupation, since growing grain on the contract system seemed unpromising to him. He has let others take over the land he rented from the collective and the contractual responsibilities associated with it. Li has kept only the ploughed fields, which are more or less the equivalent of our "private plots." Together with his wife and mother, he grows some of what he sells at the bazaar on this plot, buying the rest from farmers.

This is an appropriate place to quote the ancient dictum that goes back to the Ching dynasty (3rd century B.C.E.): "If you want to avoid poverty and become rich, eschew farming and acquire a trade. Better yet, learn business." At first glance, this appears to be an eternal truth. But closer examination shows that abundance in the marketplace comes not from an abundance of merchants, but from the ability of farmers to provide goods to sell. For all the apparent unprofitability of farm work (one mu, or about .15 hectare, yields around 100 yuan of profit per year), people cling tightly to their land.

You may remember that we mentioned the Chongqing family of Liu Bairong, which has an income of 40,000 per year. Chongqing swallowed up its suburbs (80 villages) and the surrounding countryside, leaving Liu Bairong and his five daughters, son, and neighbors no alternative other than going to work at a factory (where there is no dawn to dusk work and the pay is better.) But instead of this, Liu decided to do something that he knew and loved, and which not only brought him money but let him assert himself as an individual as well.

During the "cultural revolution" Liu ran a farm on a people's commune. He was as knowledgeable then as he is now, and he was not the sort of person to do a job halfway. But the milk yield was—well—nothing to write home about. Why?

Liu was advised of our visit in advance. From the living room, one door led to the rest of the house, while the other gave access to the stable. In the middle of the room was a table covered with a tablecloth and already boasting a pot of jasmine tea, sunflower seeds, candy, and nuts. Everywhere there were diplomas, certificates, and photographs of hundreds of people to commemorate meetings of award-winning workers. The household had evidently become used to visits and paid little attention to us, especially since it was almost time for the noon milking. Through the doorway we could see cows being fed and flooring being cleaned (the simple secret which kept the farm and house itself free of a certain smell.)

Everything involved in caring for and milking the cows is done manually. After all, there is no way even a minimal level of mechanization is possible in a stable that is no more than 20 meters long. This household farm was strikingly different from our complexes and farms, just as the milk yields are strikingly different. Grandfather Liu gets 7,000 liters of milk from each cow.

Liu Bairong was impressive. Short and stocky, and a careful speaker, he possesses that combination of personality traits we know as a strong character. If he were to say he was able to speak to animals in their language, we would have no difficulty believing him. What he has accomplished on his household farm in the last decade is far more than the result of desire and hard work alone. Talent has been the determining factor.

In the winter of 1979, Liu bought a cow for 800 yuan. She was the start of his herd of 7,000-liter producers.

We asked what would happen if we took the present herd and set it down in a commune. Liu shook his head with its close cropped hair to indicate a definite "no way." They had already done that with land, animals, and people. That approach is a dead end.

We had no difficulty imagining Liu leaving his bedroom and descending the stairs from the second floor at four in the morning, ringing a brass bell to signal his family—wife, daughters and sons-in-law, son and daughter-in-law—that it is time to start work. Without this industriousness, the family would not be able to earn the 40,000 yuan that strike the imagination in so primordial a manner, but which, if divided among all the workers, are not all that huge a sum. And there would not be any milk in the district either.

Possibly because the Chinese countryside was forced into such an absurd never-never land a few years ago, little faith remained in the old management model, enabling it to be discarded without resistance. With a

relatively small amount of arable land (China has a total of 120 million hectares, while we have almost 250 million), China has taken a daring step. It has taken 90 percent of the country's collectively owned property and given it to farmers to work under contract. And another accomplishment that would have been impossible under the old apparatus of coercion and control, and that eluded the "cultural revolution," is that farmers have started working conscientiously.

Agricultural output has doubled over the last 10 years. Over 100 million tons of additional grain were produced, with per capita annual grain output at 400 kilograms. This figure is representative of a tremendous feat. Indeed, the data all but compel one to believe the 300 kilogram per capita grain yields of the last two millennia were a barrier that could not be surmounted. For the last 2,000 years, the Chinese people have fought famine, surviving on subsistence portions of food. The addition of 100 kilograms per capita has permitted the people to raise its calorie intake for the first time in its history.

When concluding a production contract, a farmer is obligated to sell three percent of his harvest to the State and seven percent to his cooperative. Forty percent is sold to the State at comparatively high prices; the remaining 50 percent can be disposed of as the farmer sees fit. We might add that it is not always to his advantage to put his remaining 50 percent on the market right away, particularly since farmers receive fertilizer, machinery, etc. from their collectives in connection with deliveries made in accordance with contract.

Farmers' real profits have grown over the last 10 years from 134 yuan per year to 463. Some people feel that the family contract system has "skimmed off the cream" and burned itself out. They maintain that the next jump of 100 million tons—and the plans call for hitting 500 million tons of grain by the year 2000—will be accomplished through use of chemical resources and machinery, neither of which is compatible with the patchwork fields of the family contract system.

The people we talked to, most of whom were theoreticians, had a different view of the family contract system. They felt it had potential that was yet untapped. We could cite a long list of ways they felt the family contract system could be stimulated, but the key point is that there was not a single prescriptive or proscriptive directive among them. All the measures are economic in nature, including the consolidation of farmholds into genuinely voluntary cooperatives.

So far, the Chinese *perestroika* has not been beset by what amounts to a constant fear: free competition and entrepreneurship will let strong, zealous landowners become rich peasants and exploiters. In the south, plots have remained between one and two hectares in size; in the north, they are two to three hectares. And that is with all the stops pulled out. Land cannot be sold to one's neighbor, for example, but it can be used by him for

consideration. This permits people to acquire the help they need for embarking on new enterprises. The terms governing how a plot is transferred state that the legal owner of the land retains the right to return to and cultivate it. In addition, we were told in the south of China that several attempts had been made to raze in dozens of hectares of land. And what was the result? The "latifundia" disintegrated. Large holdings are economically disadvantageous.

It seems to us that optimizing the size of farms is one of the main currents of thought in agricultural production. Experts say that building cooperatives out of Chinese villages fits in with the ideas of prominent agrarian scholar A.V. Chayanov. Chayanov felt the amount of production that could be concentrated within a single holding could only rise to a certain point before performance began to drop.

Landowner Liu Bairong has never heard of Chayanov, and we only learned who he was over the last year, but in fact Liu has no plans to have more than 50 cows. He has identified the limit of his personal ability and responsibility. Clearly, ages of experience working the land give each individual his own understanding of what is efficacious and necessary. And if each such person is free to act in accordance with his personal understanding of what efficacious means, and does not have to obey some abstract "must," he has the greatest chance of fully realizing his creative potential.

In our discussion of modern China, why have we analyzed the different layers of economic transformation when we could have looked at other matters, such as how advanced education for specialists is changing, or how moviemakers are casting off the shackles of dogma and slogans? There is a very good reason for this. Nine years ago, without waiting for the administrative and bureaucratic apparatus to change, the workers and peasants of China wrote a new page in the history of their country. They saw the resolutions, which were so new they still smelled of printer's ink, as the legal foundation for expanding individual initiative and encouraging new forms of management. In other words, it seems to us that something began moving at the very core of society, and the changes we see now are the complements that have followed. Basically, what has happened is what you see when seeds are asphalted over and the seemingly weak shoots break through the seemingly hard surface.

When we arrived in China, the country was abuzz with talk of the just concluded session of the All-Chinese Assembly of Peoples' Representatives. And we do not mean the organized, robust campaigns in which materials and documents from the sessions are discussed. Instead, we saw people talking and thinking about the country's situation in frank terms. What were they talking about? Among the topics were: the Law Governing Enterprises (under discussion for nine years), which was adopted; and the Law Governing Bankruptcy, which was not adopted, even though it was on the agenda of the

session. And they discussed: an amendment to the constitution that would permit private ownership of the means of production; and the fact that few documents were adopted without comment or amendment.

The high degree of parliamentary *glasnost* and democratic spirit were definitely not accompanied by friendly unanimous shows of hand. For example, the session rejected a bill to combine all the transportation ministries into one after deciding that conditions were not yet right for such a move. Another example of this concerns Deng Xiaopeng, one of the most powerful leaders of the country and the main architect of its reforms, who lit a cigarette in the presidium. The chairman quickly received an edifying note from the hall, and actually read it before passing it to Deng. This may seem like a trifle, but it shows the Chinese are no longer worshipping their leaders. After the voting, it was made clear that the top leaders were not elected unanimously; and the numbers of votes were made public. Yet this in no way diminished the authority of the leaders or the democratic process.

One detail which bears mentioning is that while the tally of votes was done on computers, they had only been programmed for "yes" and "no" votes. The deputies protested and demanded that "abstain" be entered as well.

What are we getting at? A computer by itself is not progress; old ideas and outmoded thinking can be programmed into it. This is precisely what makes the Chinese economic model so interesting: the foundation laid for it is based on liberating creativity and instituting democracy and equality (but not uniformity) among workers.

There are infinite numbers of indexes and examples that could be cited to demonstrate this. But while they are impressive, they are meaningless unless we remember the key point: everything that China is earning, it is earning through its own labor.

13189

Soviet-Vietnamese Fishery Cooperation Examined

18070057 [Editorial Report] Moscow *IZVESTIYA* in Russian on 3 November 1988 carries on page 4 a 1400-word article by B. Vinogradov discussing Soviet-Vietnamese economic cooperation on the 10th anniversary of the signing of the Soviet-Vietnamese Treaty of Friendship and Cooperation. He notes that an agreement on cooperation in fish production has been signed on the basis of the treaty. "More than 30 search expeditions were conducted, which determined the fishing zone's resources and provided precise recommendations on the scale and region of the catch." He quotes an official from the SRV Ministry of Water Conservancy, Hoang Khon: "In order not to sap reserves, a precise annual quota was established." Vinogradov also quotes a

USSR Ministry of the Fish Industry representative in Hanoi, V.A. Chertov: "Above all, we designate the primary areas of our cooperation fisheries, ship-repair, and supplies to the Soviet Union of agar seaweed, cultivation and catch of fish in internal waters in exchange for frozen fish products. Where is the reserve for an increase in efficiency? We and our Vietnamese partners are of one opinion: in the establishment of direct ties and the creation of joint enterprises. Lately, the positive experience of direct ties between Far East regions and Vietnam has increased. This past summer two fish-producing joint enterprises—Siprimfiko and Masikan, with centers in Ho Chi Minh City—were put into service."

Chertov goes on to discuss how these joint enterprises are structurally different. "Two partners—the Vietnamese company Seaprodex and the Soviet organization Primorybeprom—created the first. The shareholders of the second are the Soviet-Singapore company Morisko and the southern Vietnamese province of Minh Hai. The first will specialize in the processing of fish and calamari, and the other in the cultivation and sale of shrimp. But both enterprises have analogous tasks—joint work with profit-sharing according to invested labor and capital. Unfortunately, problems attributable to difficulties in setting up the firms have not been avoided here. The Soviet side in the Siprimfiko joint enterprise has still not paid its half share and, consequently, may not receive its corresponding share of total yearly income."

Vinogradov notes that SRV Minister of Water Conservancy Nguyen Canh Dinh emphasized that this cooperation has been mutually beneficial and offered great opportunities. Dinh is quoted as saying: "This is our future. Wide-ranging opportunities exist. We are only just beginning, but among our ideas are the construction of a Vietnamese floating-dock in the Sea of Okhotsk and other projects which are based on the strong fishery base of the Soviet Union and the rich experience and surplus of labor in Vietnam."

Vinogradov points out that the Vietnamese Water Conservancy Ministry notes that the real advantage of direct ties is evident in time-saving. They noted in the Ministry: "Up until now in our business, the delay caused by reaching agreement on action through middlemen frequently brought about painful losses. Fish, as you know, is a quickly perishable product. The fishing season lasts 1-2 months, and if for some reason we do not succeed, an entire year is wasted. It is still important that the joint enterprise has the freedom to dispose of its earnings at its own discretion."

Vinogradov quotes Chertov: "This is how it was up until this year. All the foreign trade operations of the USSR Ministry of the Fish Industry were carried out exclusively through the V/O Sovrybflot which also ordered

necessary equipment from foreign firms. But the produce itself—the fleet base or the production association—did not even participate in signing the contract...In July of this year, the production associations Primorrybproen, Sakhalinrybeprom and others finally opened their own accounts in the USSR Foreign Economic Bank. The joint enterprise Siprimfiko itself is now determining what and where to buy without needing the services of Sovrybflot."

Vinogradov states that Soviet and Vietnamese partners are now deciding how to proceed further. He notes that there are plans to purchase from abroad supplies for the agar factory in Vietnam so that the USSR can import processed agar, the need for which is increasing every

year. More credits are also needed to invest in expanding the seaweed plantation.

He notes Hoang Khon's summary remarks: "In general, the scope for joint fishing is great. And experience demonstrates convincingly that, through a businesslike approach, it is possible to solve all problems to our mutual advantage and benefit: perestroika going on in our countries' economic management systems will bear tangible fruit. It seems to me that precise economic accountability and a creative attitude toward business are visibly becoming the distinguishing characteristic of our cooperation. If you will, this is a sign of the times."

UD/332

Balance of Forces Between Afghan Government, Rebels Detailed

18010115 Moscow AGITATOR in Russian
No 17, 1988 (signed to press 11 Aug 88) pp 47-49

[Article by L. Shershnev under the rubric "Modern World": "Afghanistan: What Lies Ahead?"]

[Text] This is a question that many are asking in our country and abroad now. It reflects hope and anxiety. Hope is inspired by the Geneva agreements on settlement of the Afghanistan problem and the beginning of their implementation by the Soviet Union and the Republic of Afghanistan. Anxiety is being aroused by the attitude toward obligations which Pakistan and the United States have taken upon themselves and actions by the opposition they support which jeopardize the achievement of peace on Afghan soil.

Just how do we assess the situation with respect to the Afghan settlement as a whole? E. Shevardnadze, the USSR minister of foreign affairs, responded this way during a recent visit to Kabul: "As a whole, positively. The Afghan settlement is firmly on the tracks of the Geneva agreements and is moving on them. There are attempts to undermine it, of course, to derail it, but both we and the Republic of Afghanistan are doing everything to ensure that the settlement "train" arrives at the destination station. We are firmly confident that this will happen without fail."

This will happen because the agreements reached in Geneva, by establishing an international legal basis for resolving all the foreign policy aspects of the Afghan conflict, gave impetus to positive processes in internal policies.

This will happen because they have become an organic part of the aspirations common to all mankind which predominate today, and they have in turn had a salutary effect on their movement toward the desired goals. Isn't it really significant that the trends of settlement, in one national or regional modification or another, became apparent after Afghanistan in other conflicts which had appeared to be never-ending?

This will happen because the settlement is taking place in the name of the United Nations, which demonstrates so expressively its ability to be an effective instrument of peace. By signing the "Geneva package" in the presence of the UN secretary general and his personal representative, the sides gave their word not only to their peoples, but to the entire world community.

This will happen because the Soviet Union and the Republic of Afghanistan are keeping their word. The withdrawal of Soviet forces has been begun and is proceeding as planned. By mid-August we did not have

any subunits in 25 provinces and half of the Soviet troops had been withdrawn from the country. We have no doubt that the troop withdrawal will be completed by the date planned...

Nevertheless, the situation in Afghanistan continues to be tense. The steps undertaken by the Afghan leadership to implement a policy of national reconciliation are meeting with the opposition's fierce resistance and are not achieving the results desired. As before, the leaders of the opposition are not meeting the state authorities halfway at all and categorically refuse to cooperate with the ruling People's Democratic Party of Afghanistan [PDPA]. Under these conditions, the policy of national reconciliation, despite its vital importance, objectively has no chance of success until new mechanisms are found for a coalition with the opposing side, which is roughly equal in strength.

What will happen to Afghanistan after the Soviet troops leave there? It is impossible to answer this question unequivocally. There are too many unknown quantities in the highly complicated equation of the problems represented by the Afghan settlement.

In an interview with a correspondent of the DAILY TELEGRAPH newspaper, Afghan President Najibullah, when asked whether he was confident of his regime's survival without the Soviet presence, responded: "Yes, if interference from outside is stopped." But if it is not stopped? After all, it is already obvious now that the United States and Pakistan are counting on encouragement of the opposition's extremist antigovernment actions after the withdrawal of Soviet troops is begun as well. For this reason, we cannot expect that the regime most favorable to a people's government will be established by those who sought to remove it for 10 years. The PDPA and the national democratic revolution have to defend themselves, the program of political and socio-economic reforms and the policy of nation reconciliation under conditions of continuing and even increasing interference, obvious or secret, from outside. These are the realities.

In the final analysis, the outcome of any struggle for power depends on the correlation of forces—social and political, military, moral and spiritual and other forces. The advantage is on the government's side in Afghanistan today. It has nearly 500,000 armed fighters, helicopters, airplanes, tanks, and artillery. The enemy has one-third as many persons in armed formations and no heavy combat equipment. But this is today.

The opposition has literally larded Afghanistan with weapons in recent years. Gigantic warehouses of them, the American magazine NATION writes, are located on Pakistan's territory adjacent to Afghanistan. Taking advantage of the withdrawal of Soviet troops from areas along an entire strip of the Afghan-Pakistani border, as well as the redeployment of Afghan units and subunits from the border to the country's interior, the leaders of

the opposition forces are carrying out a large-scale transfer of their warehouses, bases and training centers to Afghan territory. And tomorrow all this can turn up in the hands of those who will support the opposition, which can drastically change the correlation of forces.

The influence of the side opposing the state authority encompasses a vast expanse of territory, primarily in rural areas. The opposition has established a structure of military, political and ideological control that is quite strong over the population in these regions. The foundation of its social base is the peasantry, which provides for replenishment of the rebel ranks, the basing sites, and the food supply. According to estimates, 75 percent of the opposition's armed formations are peasants. At the same time, this attests to the weak influence of the revolution and the PDPA on the illiterate, backward and oppressed peasants, who have an extremely low level of political consciousness. Party organizations of the PDPA exist in only 900 kishlaks [villages].

The sections of the population who are refugees living basically in Pakistan and Iran also have to be taken into account. There are roughly 4 to 5 million of them. A mechanism for their return to their homeland has been defined within the framework of the Geneva agreements. In seeking to facilitate this process, the Afghan leadership has withdrawn border units from the places where they crossed the border. However, despite expectations this withdrawal has not led to an increase in the refugee flow. It looks as if the opposition is carefully regulating the return and resettlement of the refugees. Not many of those who wish to return manage to break through into Afghanistan past the covering forces of the Pakistani troops and the rebels.

Many years will be required to resolve the refugee problem and considerable resources will be required to restore the regions where they live. Problems in locating and feeding them and providing them with jobs may engender a great deal of dissatisfaction among the returnees and incite them to extremist anti-government actions.

Much of the ensuing alignment of forces will depend on whether the government will succeed in ensuring the trustworthiness and loyalty of those armed opposition units which have come over to its side (705 detachments comprised of 41,000 men), as well as of those territorial troops formed of Afghan tribes and nationalities. It is also extremely important to find a means of reconciliation with roughly 3,000 kishlak self-defense formations which neither support nor oppose the government but which have been called upon to protect the village's traditional way of life and its property. These formations may become a support for the government, but they also may strengthen the opposition.

One of the features of civil war is clearly demonstrated in Afghanistan; in the words of V. I. Lenin, "it differs from ordinary war by the immeasurably greater complexity,

uncertainty and indefinability of those who are fighting—because of the shifts from one camp to another..." ("Poln. sobr. soch." [Complete Works], Vol 13, p 72). So there are already examples, in regions where Soviet and Afghan military units have been withdrawn, of a number of territorial formations repudiating their obligations to the authorities and shifting to the opposing camp. Cases of opposition detachments shifting to the government side are not infrequent, either.

But there are two main factors on which the fate of the national democratic revolution and the state authority will depend: the processes in the PDPA, first of all, and secondly, the status of the armed forces.

The PDPA now has over 200,000 members. An impressive figure. But the processes of strengthening and developing the party, as acknowledged by its leaders themselves, are taking place slowly and inconsistently. The struggle for unity in the party ranks remains a pressing problem. The opposition is skillfully making use of conflicts between two factions in the PDPA—the Khalqi and the Parchami—to discredit the party and reinforce their own positions.

Tremendous efforts will have to be undertaken to increase the army's fighting effectiveness. The Afghan troops have operated basically together with Soviet troops all these years, even if they were only represented to a limited extent, to provide air cover and engineering reconnaissance, to conduct explanatory work and provide different forms of assistance to the population, for example. The Republic of Afghanistan's Armed Forces are assuming these functions with the withdrawal of Soviet forces. They are accumulating experience in carrying out military actions independently. They recently repulsed an enemy attempt to seize the provincial centers of Qalat and Meydan Shahr and inflicted heavy losses. Measures to further improve military development and the country's defense as the most important objectives in the policy of national reconciliation in the current stage of development of the party and the state were discussed in June this year at the PDPA Central Committee plenum. The Army and the party will be strong only when the opposition meets the state halfway, for reconciliation.

It should be pointed out that the opposition is also disunited. It is a conglomeration of parties, tendencies and organizations which represent the different branches of Islam (Sunni, Shia, Ismaili, fundamentalists and traditionalists) and national and ethnic groups of Afghan society. The opposition's basic strength comes from the seven Islamic parties united in "The Alliance of Seven."

A so-called "transitional government" was formed recently in Peshawar with the help of the Pakistani authorities, although it has not received support among the rebels either within the country or abroad. One of the reasons is that they "forgot" to include the commanders of their detachments who are operating in Afghanistan's

territory. Serious differences have emerged in the upper echelons of the opposition because of this. However, the conflicts arise for political motives as the result of leader aspirations [vozhdizm] and efforts to expand their possessions as well as because of the sharing of loot, personal hostility, blood feuds, and so forth. The rebels incur incomparably higher losses in armed skirmishes with each other than they do in battles with government troops. Under these conditions, it appears, there are not many chances that a capable united leadership will be established by the opposition forces. Each one of the groupings is rushing to increase its own opportunities to secure its own interests in the internecine struggle that is spreading.

The opposing sides are now preparing themselves for the critical struggle for power after the withdrawal of Soviet forces from Afghanistan. The opposition, by relying on help from outside, may impose a protracted war on the Afghan people. Everything will depend here on how quickly and in what form a sufficiently powerful socio-political and military organization can be formed, one which is capable of uniting the separate and opposing elements of Afghan society around itself.

A definite integrating role may be played in national reconciliation by the traditional forms of social organization and contacts, when the instinct of self-preservation and survival forces Afghans to seek contacts with Afghans and to accept compromise solutions. At the same time, as apparent from the PDPA's experience in interaction with religious circles, the peacemaking function of Islam has been far from exhausted. I think that this is precisely what D. Cordoves, the UN secretary general's representative, had in mind when he recently told Afghan refugees in Pakistan that a peaceful and stable government may be established in Afghanistan only on the basis of "traditions which enable the Afghans to overcome the crises which they have encountered in their history."

And finally, how will relations between the USSR and Afghanistan take shape after the withdrawal of Soviet forces? They will undergo changes in both form and content, in any event.

The Soviet-Afghan joint communique on results of the talks between E. Shevardnadze and Afghan President Najibullah, Prime Minister M. H. Sharq, Minister of Foreign Affairs A. Wakil, and other members of the Afghan leadership notes that the ties between our two countries are being developed to our mutual benefit and have great potential.

An important new document was recently coordinated between the Soviet and Afghan governments—the draft of a Long-Term Program for Economic, Technical, and Trade Collaboration between the Soviet Union and the Republic of Afghanistan for the period up to the year 2000.

The program is oriented toward an upsurge in the Afghan economy and the restoration, modernization,

reconstruction and construction of mining, processing, power engineering, transportation and agricultural projects, including projects in the social area.

Joint Soviet-Afghan enterprises are being planned. Increased attention is being devoted to collaboration with the private sector, whose representatives traditionally make a large contribution to building trading bridges between our countries. Direct ties will be extended and consolidated between our union republics and the provinces of Afghanistan, between the cities in our countries, between ministries and departments, and between enterprises and production collectives.

Training of Afghan national personnel who will enter the republic's economy, culture and science will be conducted as before, but on a broader scale. Construction of a complex of scientific institutions—an entire city of institutes of the Afghan Academy of Sciences—is planned. The Soviet Union has extended a sizable state credit to Afghanistan for carrying out planning and surveying and top-priority operations. A joint Soviet-Afghan space flight will take place in the near future. Contacts in culture, art, science and education will be stimulated significantly.

Afghanistan is posing more questions than can be answered today. It is important to look for such answers in the spirit of the new political thinking, which has ruled out a military solution to the Afghan problem and followed the path of a political settlement in Afghanistan in accordance with the Geneva agreements. We do not seek a pro-Soviet regime in Afghanistan, but we do not want a pro-American one either. We support a free, independent, nonaligned, neutral Afghanistan. The Soviet Union is prepared to assist it in every possible way in eliminating the aftereffects of the war, in strengthening the economy, and in developing the good traditions of friendship consecrated by history.

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Commentaries on Eve of Pakistani Elections

Bhutto's Candidacy Viewed Favorably

18070059a [Editorial report] Moscow SOVETSKAYA ROSSIYA in Russian for 15 November 1988 publishes on page 3 a 1,000-word article by S. Bulantsev headlined "An Arrow in Flight: The Political Struggle in Pakistan Is Becoming Sharper on the Eve of the Elections." Bulantsev stresses the great popularity of Benazir Bhutto, the Pakistan People's Party [PPP] candidate for prime minister, and describes the PPP as waging highly effective electoral campaign. He goes on: "In the unanimous opinion of foreign observers the party which [Bhutto] heads, and which is most often characterized as centrist, has good chances of victory in the upcoming elections." He quotes Bhutto in favor of "social and economic justice" and as saying that while "women, national minorities and the working class" already support the PPP, it is also seeking the support of the middle

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